

Report to Cabinet

Subject: General Fund Revenue Budget 2021/22

Date: 11 February 2021

Author: Senior Leadership Team on behalf of Leader of the Council

Wards Affected

Borough wide.

Purpose

This report sets out revenue budget which aligns to the Gedling Plan priorities, objectives and top actions for the Council for the forthcoming year.

Key Decision

This is a Key Decision because the proposals will have a significant impact on all wards in the borough and include financial implications that are above the threshold of £0.5m determined by Council for decisions to be regarded as a Key Decision.

Recommendation(s)

Cabinet is asked to approve:

- i. a 3% discretionary income inflation increase for the individual portfolios as shown in the table at paragraph 2.5.5.

Cabinet is asked to recommend to Council on 4 March 2021:

- ii. that the financial threshold above which decisions will be regarded as Key Decisions be set at £0.5m for 2021/22;
- iii. a provisional Council Tax increase of 2.97% (£5.00) which balances the financing of a Net Council Tax Requirement of £6,471,100 in 2021/22. However, in recognition that the final local government finance settlement for 2021/22 will not be confirmed until 10 February 2021, the recommended Council Tax level will be confirmed at this meeting on 11 February 2021;
- iv. that the detailed budget for 2021/22, as detailed in Appendix 2 be approved.

Background

- 1.1 The Constitution of the Council requires the Leader to present, before 21 February each financial year, a draft Budget and Performance Plan to the Cabinet for approval, highlighting budget priorities, growth items and proposed efficiencies.
- 1.2 The Executive is required to consider any comments made on the draft Budget and Performance Plan and to present the final drafts to Council for adoption in accordance with the statutory requirements. To fulfil these requirements the 2021/22 budget proposals together with the Gedling Plan will be presented to Budget Council on 4 March 2021. The Borough Council has a statutory responsibility to determine its Council Tax by 10 March.
- 1.3 This report ensures that these requirements will be met for the 2021/22 budget process.

Proposal

2. Proposed General Fund Budget 2021/22

- 2.1 The Council's proposed General Fund budget sets out the financial strategy and framework for overall financial control and administration for the Council. It also details how individual items such as Central Government Funding, Taxation levels, Resource Developments and Efficiency proposals impact on the annual budget and this has been taken into account in presenting this annual budget and Medium Term Financial Plan (MTFP) Summary.

2.2 Principles Underpinning the Budget Strategy

The Council has a number of agreed principles as a basis for financial management and budget planning as follows:

- Emerging pressures are managed within existing overall budgets;
- Spending is aligned to key priorities as set out in the Gedling Plan;
- Income is only included in the budget where supported by robust proposals and is deliverable;
- The Council will maximise its commercial income where possible to ensure that fee charging services break-even over time and are provided with a nil cost subsidy from the taxpayer where appropriate, or return a surplus where appropriate;
- Where possible, future liabilities are anticipated;
- Budgets are sustainable;
- Savings proposals are supported by project plans and the impact on service delivery is clear;
- Capital and revenue planning must be integrated to ensure that implications are fully anticipated;

- The Council's reserves and balances are not to be used as a primary method to balance the ongoing pressures in the budget. Earmarked reserves are used for specific one-off purposes to support the delivery of corporate objectives and to mitigate risks.

In light of the anticipated medium term gap, the Council has developed a forward strategy to inform future financial planning, by providing a framework for reducing planned expenditure over the medium term to ensure that the Council is financially sustainable, while still delivering the Council's key priorities as set out in the Gedling Plan.

2.3 **Central Government Spending Round 2020**

Members will recall that the 2019 Comprehensive Spending Review (CSR) was deferred due to the uncertainties presented by Brexit and that this resulted in a one year only spending round. A full multi-year spending review was due to be conducted in 2020 to take into account the nature of Brexit and set out plans for long term reform.

However, in the autumn of 2020 the Chancellor announced that there would be no autumn Budget, focussing instead on continuing the Covid-19 support package. On 21 October the Chancellor confirmed that the planned 2020 CSR, originally launched to set government department budgets for 2021/22 to 2023/24, would not be implemented and instead another one year spending review would be completed.

On 25 November 2020, the Government announced the outcome of the Spending Round 2020. At national level, this announced an increase in the Core Spending Power for local authorities, equivalent to an average cash increase of 4.5% for 2021/22 which is mainly related to increases in funding for social care which is not a district council function.

Similar to the CSR, the Ministry of Housing, Communities and Local Government confirmed in April that the Fair Funding Review and the move to 75% Business Rates Retention would be deferred for a further year to allow councils to focus on meeting the public health challenge. This is the second year that the intended local government finance reforms have been deferred (see paragraph 2.4.9).

The ongoing delays in the CSR and the consequent one year only Local Government Finance Settlements, together with the ongoing deferral of local government finance reforms, means that Councils still have no clarity or certainty of how services will be funded beyond next year which presents incredible challenges, inhibiting meaningful financial planning and the development of a sustainable medium term financial plan. This is further exacerbated by the uncertainties resulting from Covid in terms of ongoing budget pressures, both additional costs and income losses, and how they will be financed.

2.4 **Local Government Finance Settlement (LGFS) 2021/22**

2.4.1 The local government finance settlement is the annual determination of funding for local government, distributing revenue raised from business rates and other funding streams through:

- Revenue Support Grant and Business Rates Retention known as the Settlement Funding Assessment;
- Other Key Grants – e.g. New Homes Bonus; a new Lower Tier Service Grant.

The provisional settlement figures for 2021/22 were announced by the Secretary of State for Housing, Communities and Local Government (MHCLG) on 17 December 2020. The Government's assessment of the Core Spending Power of local authorities, its proposals for the referendum principles for managing excessive council tax increases, and a Covid-19 funding package were also announced as part the Settlement proposals.

A full analysis of the provisional settlement was completed by the Local Government Association and is attached at Appendix 1 for information. At the time of publishing this report the final settlement for 2021/22 had not been announced. An update on the final settlement will be provided at the meeting.

2.4.2 **Settlement Funding Assessment (SFA)**

The 2021/22 Settlement determines how much Revenue Support Grant central government will give to each local authority in England in 2021/22 and sets the Baseline Funding Level for Business Rates (the actual amount of business rates funding will be determined by the actual amount of rates collected and movements in the business rates base in accordance with the business rates retention scheme).

As detailed in 2.3 the Government announced a one year only Spending Round for 2021/22 and consequently is 'rolling forward' core components of the 2020/21 local government finance settlement without change to offer a one year local government finance settlement for 2021/22. The one year settlement means that there is still no clarity over funding levels after March 2022. This hampers meaningful financial planning at a time when demand pressures are increasing. There is still no detail available regarding when the Fair Funding Review will be relaunched or when the next stage of business rates retention consultation will commence.

As the 2021/22 figures represent a simple roll forward of the previous multi-year settlement period 2016/17 to 2019/20 and the one year settlement for 2020/21, they are presented with the previous periods for comparative purposes in the table below:

Year	Revenue Support Grant £	Business Rates £	Total SFA £	Cash (Reduction) /Increase £	Movement from Prev. Year	Movement from 2015/16 (last CSR)
2015/16	2,146,200	2,792,300	4,938,500			
2016/17	1,415,700	2,815,500	4,231,200	(707,300)	-14.3%	-14.3%
2017/18	780,500	2,873,000	3,653,500	(577,700)	-13.7%	-26.0%
2018/19	384,900	2,959,300	3,344,200	(309,300)	-8.5%	-32.3%
2019/20	0	3,027,100	3,027,100	(317,100)	-9.5%	-38.7%
2020/21	0	3,076,400	3,076,400	49,300	+1.6%	-37.7%
2021/22	0	3,076,400	3,076,400	0	0%	-37.7%

The total cumulative settlement reductions equate to 37.7% or £1.86m in cash terms over the spending review periods 2016/17-2021/22 compared to the base position of 2015/16. Total settlement reductions compared to the amount received in 2010/11 are £5.8m or 65% by 2021/22. This is the same position as last year.

SFA is reduced to 26% of Gedling's net budget for 2021/22, compared to 60% in 2010/11.

2.4.3 Business Rates Retention – Current 50% Retention Scheme

Business Rates growth compared to baseline funding levels of £3,076,400 for 2021/22 is estimated at **£726,800** giving total income from business rates of £3,803,200, including S31 grants to compensate for new reliefs and indexation introduced by the government since the scheme's introduction (Note: S31 Grants are used by central government to reimburse a local authority for additional activities which are not covered by existing funding methods). This does not include the impact of the Government's one-off compensation scheme for Covid related Collection Fund losses in 2021/22, or the mandated spreading of Collection Fund deficits, further details of which are included in paragraph 2.5.9.

Growth amounts for the medium term are currently forecast at a prudent level of £700,000 due to the uncertainties that remain in the estimation process i.e.:

- the business rates retention scheme has shown volatility in respect of the appeals process, the prediction of future growth, and the potential for significant local impact where a large business relocates/closes; and
- the impact of changes arising from the planned move to 75% business rates retention in 2022/23 remain largely unknown (see paragraph 2.4.9 below);
- potential impacts of Covid-19 on the economy and related business closures.

2.4.4 New Homes Bonus

During 2011/12 Central Government introduced the New Homes Bonus (NHB) which is funded from the centrally retained share of Business Rates income and paid as a separate non-ringfenced grant in addition to the Settlement Funding Assessment.

The principles of the grant are to reward local authorities for each new property completed within their boundary plus an additional reward for returning empty properties back into use. The value of the reward is linked to the national average council tax band D property for a number of specified years, initially set at six years.

When the NHB was introduced, the Department for Communities and Local Government stated in its final scheme design that it was intended to be a predictable, permanent and enduring feature of local government funding. However, since its introduction a number of changes have been made as summarised in the table below:

Scheme Period	Growth Level Awarded	Number of Years of Award
2011/12 – 2016/17	All	6
2017/18 – 2019/20	Above 0.4% Threshold	4
2020/21	Above 0.4% Threshold	1
2021/22	Above 0.4% Threshold	1

During 2016/17 the Government made changes to the NHB with the intention of delivering savings to fund pressures in social care. The main changes to the scheme included:

- Reducing the length of time bonus is paid from six years to four years;
- Introduction of a 0.4% growth threshold, recognising that some housing would be built regardless of the NHB, to remove what Government terms as 'deadweight' from the payment. Local authorities need to achieve growth of greater than 0.4% in each year before they receive any NHB funding. For Gedling, this equates to 180 Band D properties before any payment is made. It was considered that the baseline could remove any incentive to grow in relatively low growth areas and penalise areas with limited opportunity to grow.

Last year the Secretary of State for MHCLG stated that it was not clear that the NHB in its current form is focussed on incentivising homes where they are needed most and announced that the government would consult on the future of the housing incentive in the spring. However, this consultation did not proceed due to Covid-19.

The Government have confirmed that NHB will continue for 2021/22 on the same basis as 2020/21, with no change to the way the NHB is calculated with the award being for one year only.

For the period measured for the 2021/22 New Homes Bonus i.e. October 2019 to October 2020, growth in Gedling was 142 band D equivalent houses, equivalent to 0.3% growth. This is below the national baseline of 0.4% and NHB has been confirmed at **zero** for 2021/22. The Council does receive the affordable homes premium based on a growth of 8 units in the period which amounts to **£2,200** which will be paid for one year.

The impact of the scheme changes has been a significantly reduced award as demonstrated in the table below:

New Homes Bonus Projections Compared to 2016/17

Payment Relating to	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000	£000	£000
2011/12	339						
2012/13	410						
2013/14	366	366					
2014/15	448	448					
2015/16	468	468	468				
2016/17	369	369	369	369			
2017/18		9	9	9	9		
2018/19			11	11	11	11	
2019/20				93	93	93	93
2020/21					270	0	0
2021/22						2	
Total MTFP	2,400	1,660	857	482	383	106	93
Reduction from 2016/17		(740)	(1,543)	(1,918)	(2,017)	(2,294)	(2,307)

There remains considerable uncertainty surrounding the future of the NHB scheme. Following the consultation process announced by the Secretary of State it is likely that NHB will be considered in the context of the Fair Funding review and may even be removed as part of the next Comprehensive Spending Review. It is considered prudent for medium term financial planning purposes to assume that zero NHB awards will be available to support revenue financing going forward. Any future awards will be available to support one off projects or an increase in balances to support future budgets.

2.4.5 Lower Tier Services Grant

As part of the provisional local government finance settlement the Government announced a new un-ringfenced Lower Tier Services Grant for 2021/22. The grant allocation methodology is two-fold:

- The first part of the grant is allocated to all lower tier councils on the basis of the 2013/14 Settlement Funding Assessment as the best available relative needs assessment, and for Gedling this equates to **£131,000**;
- The second is a minimum floor funding to ensure that no authority sees an annual reduction in Core Spending Power (CSP) and there is a nominal and real terms increase in CSP when comparing 2020/21 funding to 2021/22 proposed funding. For Gedling this is **zero** because the Government's measure of our CSP is increased by 1.4% for 2021/22. The CSP measure assumes a maximum increase in Council Tax for 2021/22 but this remains a local decision for full Council (see paragraph 2.4.6). The Government is clear that this funding is in response to the current exceptional circumstances and is a one-off. There has though been no consideration of CSP reductions that have been suffered by Councils prior to 2020/21 and therefore appears to protect those Councils that have not previously suffered decreases in NHB irrespective of the already anticipated reductions in their NHB including legacy payments.

2.4.6 Core Spending Power 2021/22 Compared to 2015/16

As part of the Settlement announcements the Government includes its projection and comparison of Core Spending Power for each authority. This demonstrates the movements in spending power for the four year spending review period 2016/17 - 2019/20 together with the 2020/21 spending round and the 2021/22 spending round.

For Gedling the components of Core Spending Power include the Settlement Funding Assessment (revenue support grant and business rates), the Government's estimate of Council Tax Receipts, the New Homes Bonus, Lower Tier Services Grant and S31 grants and these are summarised in the table below:

Core Spending Power 2016/17 to 2021/22

Year	SFA and S31 Grant £m	Assumed Council Tax £m	New Homes Bonus £m	Lower Tier Service £m	Total £m	Movement from Prior Year	Movement from 2015/16
2015/16	5.0	5.5	2.0	0	12.5		-
2016/17	4.2	5.5	2.4	0	12.2	-2.6%	-2.6%
2017/18	3.7	5.7	1.7	0	11.1	-9.0%	-11.2%
2018/19	3.3	6.0	0.9	0	10.2	-7.7%	-18.4%
2019/20	3.1	6.0	0.5	0	9.6	-5.9%	-21.5%
2020/21	3.2	6.3	0.4	0	9.9	+2.3%	-21.3%
2021/22	3.3	6.5	0.1	0.1	10.0	+1.4%	-20.2%

As detailed in paragraph 2.3 the Government reported a 4.5% cash terms increase in Core Spending Power for Local Government as a whole in 2021/22. The table shows a cash terms increase of 1.4% for Gedling in 2021/22 which is 3.1% below the average received by the sector as a whole, predicated on a maximum increase in Council Tax locally of £5 for 2021/22 equating to a total increase in income of £243,700 when compared to 2020/21. However, this will assume increases in council tax base which have not happened. The actual maximum increase in Council Tax equates to £188,000 and so the reported 1.4% increase in CSP is in reality only 0.8%.

The Government's estimate of council tax receipts assumes that District/Borough Councils will increase Council Tax by the maximum possible. However, actual council tax receipts will be determined by local decisions for council tax increases and actual tax base growth. The Government forecast presents a total cumulative reduction in Core Spending Power by 2021/22 of 20.2% when compared to 2015/16, **making Gedling the worst affected Council in England for the second year running.**

2.4.7 Covid Funding Support Package

The Government published proposals for a Local Government Covid Support Package 2021/22 alongside the LGFS. The package covers 4 Covid-19 funding policies providing un-ringfenced grants as detailed below:

a) Covid-19 Expenditure Pressure Grant

Grant to cover all Covid related budget pressures in 2021/22, distributed on the basis of the Covid Relative Needs Formula. Gedling have been allocated **£534,700**;

b) Local Council Tax Support Grant

Funding to meet the additional costs of the local Council Tax Reduction Scheme (CTRS) arising from an increased caseload, to enable CTRS support to continue. The methodology for the grant allocation is subject to consultation. This indicative allocation for Gedling is **£117,700** which is expected to broadly cover the costs based on current estimates for increased caseload. Major preceptor will also receive funding directly to cover their share of CTRS costs.

At its meeting on 27 January 2021 Full Council committed to continuing its CTRS unchanged in 2021/22 to ensure support can continue for its financially vulnerable residents;

c) Local Tax Income Guarantee for 2020/21 losses

Funding to compensate local authorities for 75% of irrecoverable losses in Council Tax and Business Rates income in respect of 2020/21. Funding will be based on a comparison of expected income prior to Covid and actual collection. Further details of the current estimate for the funding is provided

at paragraph 2.5.9. The local tax income compensation grant funding is estimated at **£718,000** which will part fund the estimated total collection fund losses of £898,000 which results in a net losses of **£180,000** to be funded by the taxpayer. There is no mention of compensation for irrecoverable losses relating to 2021/22 collection which may also be adversely affected as the impacts of the pandemic continue in the economy;

d) Sales, Fees and Charges (SFC) Compensation Scheme Extension

An extension of the current 2020/21 compensation scheme to cover 75% (after accounting first for a 5% deductible of budgeted income) of irrecoverable income losses for the first **3 months** of 2021/22 which is estimated at **£268,000**. The current estimate for sales, fees and charges income losses included in the 2021/22 budget, relating to leisure centres, totals **£1,056,000**. Income losses are expected to continue throughout 2021/22 with full recovery to pre-pandemic levels not anticipated until summer of 2022/23. After accounting for the SFC compensation for the announced 3 month period the net income reductions in the General Fund total of **£788,000**.

Whilst the Covid funding support package is welcome, it was announced before the most recent lockdown restrictions were implemented and the current proposals do not cover Gedling's estimated income losses for 2021/22.

The 2021/22 budget assumes full allocation of the Expenditure Pressure Grant of £534,700 to cover some of the remaining income losses not covered by SFC scheme or the Local Tax Income compensation scheme, leaving a **net cost to the General Fund of £453,300**. Therefore, in the absence of additional government funding, any further Covid pressures arising during 2021/22 will need to be accommodated from savings or cuts in other Council services.

The Council's response to the consultation on the Covid funding package asked Government to consider the ongoing impact of Covid and to extend its support in response to the changing circumstances, in particular, in respect of the SFC scheme to extend it beyond 3 months.

2.4.8 Council Tax Increase Referendum Trigger

The Localism Act 2011 gives powers to the local community to either endorse or veto Council Tax rises that are above a limit which is to be set annually by the House of Commons. If a local authority decides to implement a council tax increase above the government set limit this will trigger a referendum so that local voters can either support or reject the proposed rise.

In the Provisional Settlement the Government announced the referendum limit for 2021/22 for Shire Districts at 2% or £5 whichever is higher. For Gedling the £5 cash limit equates to 2.97% in 2021/22. Any Council which sets an increase greater than the referendum limit and does not get support from the electorate

via a referendum will have to revert to a council tax level that is compliant, and bear the costs of re-billing its residents.

2.4.9 **Local Government Financing from 2022/23**

Fair Funding Review

Alongside the local government finance settlement in 2018/19, the Government announced its intention to implement the Fair Funding Review in April 2020, this was deferred for a year due to Brexit and it has been confirmed that this will be delayed for a second year due to Covid-19. It is now expected that the review will be relaunched with a conclusion expected in time for the next Comprehensive Spending Review in 2021. The objective of the Fair Funding Review is to deliver a sustainable funding allocation formula for local government.

Funding baselines for local authorities, as determined by the local government finance settlement, are based on an assessment of local authorities' relative needs and resources. The methodology behind this assessment was introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013/14.

Since that time, demographic pressures have affected local areas in different ways, as has the cost of providing particular services. In recognition of these pressures, the Fair Funding Review will address concerns about the fairness of current funding distributions. The outcome of this review will enable the Government to reconsider how the relative needs and resources of local authorities should be assessed in a world in which they will continue to have greater control over the money that they raise.

Transitioning to the new funding distribution. The Government recognises that introducing a new needs and resources formula could result in significant changes to the funding baselines of some local authorities. It is therefore intended to introduce transitional arrangements that are fair, transparent and easily understood so that budgetary impacts can be accommodated. The consultation proposes that the starting baseline for the purposes of transition will be a measure of the current funding available to each local authority. This should mean that no authority will see its funding reduce as a result of the new system in the first instance. It is proposed that transition is time-limited, establishing a fixed period of time to enable target allocations to be reached as soon as practicable.

Whilst the need for a transition period is usual in these circumstances there is a risk that the funding reductions of 20.2% that Gedling have suffered since 2015/16, as detailed in the CSP measure, will be locked in for a period if:

- a) the outcome of the review is that Gedling's funding is currently too low based on relative needs, which may be the case given that the disproportionate £2.5m funding reductions we have faced are mainly due to the NHB scheme which takes no account of relative needs; and

- b) the current CSP is used as the comparative measure to apply protection similar to its use in the new 2021/22 Lower Tier Services Grant floor funding as detailed in paragraph 2.4.5.

Gedling will take an active part in the consultation process to ensure its position is understood and views are represented.

Future of Business Rates and Business Rates Retention

The Government states that it will revisit the priorities for reform of the local government finance system, taking account of wider work on the future of the business rates and on the Adult Social Care system. Final decisions will be taken in the context of next year's Spending Review.

In the summer 2020 HM Treasury launched a consultation 'fundamental review of business rates: call for evidence'. This sought views from all stakeholders on how the business rates system currently works, issues to be addressed, ideas for change and a number of alternative taxes. The Local Government Association (LGA) response to the review stated that 'although property continues to provide a good basis for a local tax on business, we cannot look to business rates to form such a substantial part of local government funding in the future and alternative means of funding councils will be needed instead of, or as well as, a reformed business rates system'.

As part of the 2020 Spending Review, it was announced that there will be no reset of the business rates baseline for 2021/22 which provides some funding certainty for next year i.e. it was anticipated that some existing business rates growth could be removed upon reset, reducing income levels. In his statement to the House of Commons, the Secretary of State confirmed that the Government will work with the sector and Members across the House to seek a new consensus for broader reforms to local government, including the business rates reset, and will ensure that councils are set on a long-term trajectory of sustainable growth and fair resources. It is unclear where this leaves proposals for increasing Business Rates Retention which intended to increase the current 50% retention, initially to 75%, and then to 100%.

2.5 General Fund Budget 2021/22 Summary

- 2.5.1 The following table summarises the proposed General Fund Budget for 2021/22. The detailed budgets are presented at Appendix 2 together with an explanation of major variances between the original estimate for 2020/21 and the estimate for 2021/22. In developing a budget proposal, assumptions on the core budget have to be made and the various assumptions in respect of inflation are shown at Appendix 3. These have been included in both the annual base budget and MTFP calculations.

General Fund Budget Summary 2021/22

Portfolio	Original Budget 2020/21	Base Budget 2021/22	Variance
	£	£	£
Community Development	1,526,200	1,409,700	(116,500)
Housing, Health and Wellbeing	2,347,500	3,098,700	751,200
Public Protection	1,609,400	1,362,400	(247,000)
Environment	4,844,500	4,749,400	(95,100)
Growth and Regeneration	853,200	780,900	(72,300)
Resources and Reputation	2,174,100	1,503,800	(670,300)
Net Portfolio Budget	13,354,900	12,904,900	(450,000)
Transfer to/(from) Earmarked Reserves	(1,752,200)	(1,250,600)	501,600
Net Council Budget	11,602,700	11,654,300	51,600

2.5.2. Major Budget Pressures

The base budget includes the following major budget increases **greater than £50,000**, which are broadly in line with previous medium term financial plan expectations, with the exception of loss of income related to the COVID19 Pandemic;

- Loss of income across all Leisure Centres due to the ongoing impact of the COVID19 Pandemic restrictions is expected to be £1,056,000, which will be partially offset with Grant from the Governments Income Compensation Scheme of £268,000;
- Pay Award of 2% £272,000 has been included pending notification from the National Joint Council of any award to be given;
- An increase in Rent Allowances of £184,000 due to the expectation that overpayment recoveries will be significantly lower in 2021/22;
- Reduction in major planning applications of £100,000, an expected decrease due to planned housing developments in the local plan being completed.

2.5.3 Major Budget Reductions – Efficiency Programme

In response to the budget pressures arising from the downturn in the economy and consequent reductions in central government grant funding, the Council has approved a number of efficiency/budget reductions programmes to ensure delivery of a sustainable Medium Term Financial Plan (MTFP).

The Council's efficiency programme has been developed in accordance with the themes contained in the approved Efficiency Strategy i.e.:

- **Efficiency & Effectiveness** – including: service efficiencies delivering the same level of service with a reduced level of resource; effective asset management; new ways of working including service re-engineering and new delivery methods; demand management; and service reductions or cessation;
- **Contract Management** – improved value for money in procurement;
- **Income Generation** – to maximise all income and reduce the level of subsidy provided in our discretionary service areas moving towards full cost recovery where appropriate; innovation/new ideas for new income streams.

Efficiency Programmes – Progress Update

Since 2014/15 Council have approved four separate efficiency programmes totalling £6.5m net of risk provision. Previous progress has been positive and budget reductions achieved have been in line with the profiled estimate.

Progress with the delivery of the remaining 2020/21 to 2022/23 programme of £1.705m (net of risk provision) has been fully reviewed as part of 2020/21 budget monitoring and the 2021/22 budget process. It has always been recognised that there is risk in delivering the full amount of the savings, mainly due to uncertainties inherent in a more innovative commercial approaches and alternative delivery models and this risk has been somewhat exacerbated by Covid-19, for example, in the review of leisure provision which has been significantly adversely affected meaning options for leisure provision will now be considered when the market position has stabilised. As a result non-deliverable efficiencies have now been identified, within the current programme totalling £605,000 (net of risk provision) leaving £1.1m of which £0.5m is expected for delivery in 2020/21, leaving £0.6m still to be delivered in 2021/22 to 2022/23. A new efficiency programme is being proposed as part of this budget report, which broadly replaces the amounts that remain undeliverable from the current efficiency programme as detailed below.

Efficiency Proposals – New Proposal 2021/22 to 2024/25

Due to the reduced delivery of the existing efficiency programme and new budget pressures arising e.g. additional pay award 0.75% above that estimated in 2020/21, a new cumulative efficiency target of £584,000 is proposed for approval and included in the MTFP, made up of the following annual ongoing targets: **2021/22 £254,200; 2022/23 £162,300; and 2023/25 £167,500**. The inclusion of this target maintains the level of efficiencies that are broadly in line with previous expectations and contribute to the achievement of a balanced budget.

The tables below summarise the proposed budget reductions analysed by Portfolio and Reduction type, a detailed list is included in Appendix 6.

Summary of Budget Reduction Proposals

Inclusion in 2021/22 Budgets and MTFP				
Portfolio	2021/22 £	2022/23 £	2023-25 £	Total £
Community Development	31,000	0	0	31,000
Housing Health & Wellbeing	28,000	68,000	0	96,000
Public Protection	0	0	54,500	54,500
Environment	62,400	0	113,000	175,400
Growth & Regeneration	45,000	40,000	0	85,000
Resources & Reputation	87,800	54,300	0	142,100
Total	254,200	162,300	167,500	584,000

Budget Reduction Proposals Summarised by Type

Summary 2021/22 - 2024/25	Service Cut £	Efficiency and Effectiveness £	Income £	Total £
Community Development	0	31,000	0	31,000
Housing, Health & Wellbeing	0	76,000	20,000	96,000
Public Protection	0	0	54,500	54,500
Environment	0	175,400	0	175,400
Growth & Regeneration	0	85,000	0	85,000
Resources & Reputation	0	107,200	34,900	142,100
Total	0	474,600	109,400	584,000

2.5.4 Proposed Revenue Resource Developments 2021/22

Following discussions with the Leader, the Revenue Resource Developments detailed in the tables below are recommended to Cabinet for approval.

The table below show schemes scoring 15 points and above using the Council's approved methodology which assesses schemes in accordance with the level of contribution made towards the achievement of the Council's Priorities and Improvement Plans.

(a) Revenue Resource Developments 2021/22

Scheme	Revenue Bid 2021/22	Ongoing
	£	£
Tree Management Officer (to manage and mitigate the risks presented by the Council's tree stocks on Council land as identified on the Corporate Risk Register)	32,000	32,000
Total Revenue Bids	32,000	32,000

*In addition to the above development bid a review of the Neighbourhood Warden role has been considered in the context of the contribution made to the Council's carbon reduction and climate change agenda and the support provided to the community in that respect. A Neighbourhood Warden post is currently vacant and in order to bring an improved focus to the delivery of Council's own carbon reduction projects and to support wider community initiatives it is proposed that this post be re-designated as a **Climate Change Officer** which will be approved by the Head of Paid Service under normal delegation arrangements.*

In addition to the revenue resource development proposals a number of capital resource developments (see capital programme report an item elsewhere on this agenda) have ongoing revenue implications which have been included in the revenue budget and MTFP, as detailed in the table below:

(b) General Fund Ongoing Revenue Implications of the Proposed Capital Development and Asset Replacement Proposals (excluding borrowing costs)

Description	Capital Budget – For Information	Revenue Costs 2021/22	Ongoing Full Year Effect
	£	£	£
Temporary Accommodation Property Acquisition	1,154,000	0	(15,800)
Burton Road/Station Road Housing Development	2,647,000	0	(18,000)
Leisure Management System Replacement	75,000	18,000	18,000
Total Ongoing Revenue Costs/(Saving)		18,000	(15,800)

2.5.5 **Discretionary Income Inflation**

The Medium Term Financial Plan includes income inflation at 3% on discretionary income, (excluding leisure DNA memberships, trade waste, building control, town centre car parking), which equates to £88,500, and the increase per Portfolio is shown in the table below. Each additional 1% increase will raise a further £29,500.

It is suggested that the Portfolio Holder agrees individual charges with the relevant Corporate Director, with discretion to vary the percentage increase, as long as the overall cash amount for that Portfolio is raised or exceeded.

Portfolio	Discretionary Income £	1% increase £	3% increase £
Community Development	(80,900)	(900)	(2,600)
Housing, Health & Wellbeing	(1,492,200)	(14,900)	(44,600)
Public Protection	(612,200)	(6,100)	(18,400)
Environment	(703,500)	(7,000)	(21,200)
Growth & Regeneration	(2,200)	0	0
Resources & Reputation	(56,500)	(600)	(1,700)
Total	(2,947,500)	(29,500)	(88,500)

Some of the services operated by the Council are not included in the general fee inflation increase due either to: the sensitivity of demand to price changes e.g. Leisure DNA memberships, Garden Waste or; being operated on a commercial basis and therefore required to breakeven e.g. Trade Waste Services and Building Control. The levels of fees which are set in these areas are considered separately and the base budget amended to ensure appropriate fees are set.

Some fees for statutory services e.g. development control, are determined by central government and any changes are reflected in the base budget.

2.5.6 **Summary of Significant Budget Changes 2021/22**

In summary, the table below highlights the areas of significant variance in expenditure/income which have been reflected in the base budget 2021/22.

	Budget Impact 2021/22	
	£	£
Original Net Council Budget 2020/21		11,602,700
Revenue Budget Pressures		
Reduction in Leisure Centre Income (phased recovery from COVID19)	1,056,000	
Partially offset with Covid Income compensation scheme 3 months (Leisure)	(268,000)	
Provisional 2021/22 Pay Award 2%	272,000	
Additional Pay Award 2020/21 0.75%	101,600	
Increase in Rent Allowances	184,000	
Reduction in Major Planning Applications Income	100,000	
Increased Contribution to IT Replacement Reserve	40,000	
Reduced Investment Interest	35,000	
Increase in Electoral Register Postage Costs	27,300	
Reduction in Housing Benefit Administration Grants	26,800	
Reduced Market Income due to development	10,000	
Other minor variances (net)	(300)	
Total Pressures		1,584,700
Revenue Budget Growth		
Establishment of Tree Inspector Post	32,000	
Leisure Management System ongoing maintenance	18,000	
Total Growth		50,000
Efficiency/Budget Reduction Programmes		
Previously Approved Programmes	(171,300)	
Removal of 2020/21 Risk Provision	(100,000)	
Removal of Transformation Fund (one off)	(250,000)	
New Proposed Efficiency Programme	(254,200)	
Total Efficiency Programme (net impact)		(775,500)
Provisions		
Covid-19 Expenditure Pressures Government Grant	(534,700)	
Total Provision		(534,700)
Other Base Budget Reductions		
Removal of Asset Management Fund (one off)	(100,000)	
Fees and Charges Income Inflation (see para 3.6.5)	(88,500)	
Increase in Vacancy Provision	(30,000)	
Bestwood Country Park Contract Variation	(15,000)	
Increase in Civic Centre Rental Income	(39,400)	
Total Other Budget Reductions		(272,900)
Net Increase in Budget 2021/22		51,600
Proposed 2021/22 Net Council Budget		11,654,300

Note: In addition to the above 2021/22 budget changes and future inflationary increases the MTFP includes the following:

- Elections costs in 2023/24 £133,500;
- Assumptions about the transfer of Housing Benefit administration to the Department of Works and Pensions following the introduction of Universal Credit have been made including the deferral of the roll-out announced by the Government. The net cost to the authority is now expected to be £25,000 in 2022/23 rising to £100,000 by 2025/26.

2.5.7 Review of Balance Sheet Reserves

The Local Government Act 2003 requires authorities to consider the level of reserves when calculating their budget requirements. Professional guidance is set out to assist in this deliberation.

The Council's minimum General Fund Balance requirement is set at £1m. This is a change from previous years when the minimum balance was set at 7.5% of the Net Council Budget but as the net budget continues to reduce this methodology was setting the minimum at a level which, in the currently climate, is now considered to be too low (e.g. £870,000 for 2020/21) to manage emerging risks, for example ongoing uncertainties related to Covid. The General Fund balance is currently projected to be in excess of the minimum by £1.4m at 31 March 2022. The medium term projection on the General Fund Balance is detailed in the Medium Term Financial Plan summary at paragraph 3 below.

Earmarked Reserves on the balance sheet have been reviewed to ensure appropriate levels of funds are retained for specific future purposes and risks. The estimated movement on reserves for 2020/21 and 2021/22 are detailed at Appendix 4 and show expected balances of £3.47m at 31 March 2022. Whilst the majority is set aside to cover specific risk issues e.g. insurance risks, to support approved capital projects, to support ongoing service provision, including ring-fenced partner funds and grants, they may be diverted to support general expenditure should the need arise. In the region of £400,000-£500,000 remains that does not have specific approved plans which could be reclassified for general use. If spending pressures did arise in those 'earmarked' areas, in-year additional savings would need to be identified at that time. The MTFP at paragraph 3 assumes that the reclassification of £500,000 earmarked reserves will be required in 2022/23 to support the budget. This will be kept under review and considered in the light of the outturn position for 2020/21 and detailed recommendations made for reclassification if required.

2.5.8 Financing of the Capital Programme

As detailed in the Capital Programme report earlier on this agenda it is currently forecast that borrowing will be required to finance part of the capital programme in 2021/22 to 2025/26. Borrowing has an impact on the revenue budget in terms of interest costs and principal repayment. This is reflected in the Medium Term Financial Plan.

2.5.9 Collection Fund

Council Tax

On 15 January each year, the Council is statutorily obliged to prepare an estimate of its Collection Fund transactions for Council Tax, and its expected position at 31 March. This estimate enables Gedling and the three major precepting authorities to take account of any anticipated surplus or deficit on the Fund when they set their own authority budgets.

As detailed in Appendix 5 a deficit of £515k was declared on 15 January 2021, for the estimated position at 31 March 2021. This is net of the “spreading adjustment” of £414k, which represents 2/3 of the in-year deficit of £622k, which is largely due to the impact of Covid-19 on the Council Tax collection fund, and ensures that the full financial impact of the deficit does not fall on a single year’s accounts. The spreading adjustment is required by regulations which came into force on 1 December 2020. The declared deficit of £515k will be shared by the preceptors, with the sum of £48k falling on the General Fund in 2021/22.

To mitigate the exceptional deficit due to Covid-19, the Government is to provide Local Tax Income Loss Compensation to local authorities (as detailed in paragraph 2.4.7). A calculation will be made on 31 March 2021 to measure the difference between the actual Council Tax receivable for 2020/21 (adjusted for the originally expected collection rate) and the Council Tax Requirement used for the 2020/21 budget setting in March 2020. Income Loss Compensation will be calculated as 75% of this amount. The shortfall in income receivable for 2020/21 has been estimated at £879k, and compensation as £659k. Gedling’s share of this compensation is estimated to be £61k.

Business Rates

The Business Rates Collection Fund balance at 31 March 2020 was slightly better than forecast and resulted in a deficit of only £0.671m being carried forward, compared to the estimated deficit of £0.789m declared in January 2020 for collection in 2020/21 - a decrease of £0.118m.

An estimated deficit of £12.135m at 31 March 2021 was declared in January 2021 for the anticipated position at 31 March 2021, however this is mitigated by additional S31 grant of £11.555m paid to the General Fund in respect of the expanded retail relief due to Covid 19 in 2020/21. As with Council Tax, the remaining exceptional in-year deficit is subject to a spreading adjustment to ensure that the full impact does not fall on a single year’s accounts. The net deficit declared (excluding S31) is £582k, of which Gedling’s share of 40% is £233k, and this will fall on the General Fund in 2021/22.

To mitigate the exceptional deficit due to Covid-19, the Government is to provide Income Loss Compensation to local authorities. A calculation will be made on 31 March 2021 to measure the difference between the actual Rating income (adjusted for the additional S31 grant) and the estimated rating income

in January 2020. Compensation will be calculated as 75% of this amount. The shortfall in rating income receivable for 2020/21 has been estimated at £2.190m, and compensation as £1.642m. Gedling's share of this compensation is estimated to be £657k.

Note: Business Rates Reliefs

As detailed above the addition reliefs provided by the Government due to Covid will be fully funded by s31 grant from Government. However, due to the technical accounting requirements there will be a timing difference between the receipt of the grant which must be accounted for in 2020/21 and the collection fund deficit created by the awarding of the reliefs which will not need to be paid until 2021/22 (this element of the collection fund deficit cannot be spread over 3 years). Therefore, at the 2020/21 year end there will be a surplus in the General Fund balance of approx. £4.6m (Gedling's share) which must be retained for payment of the £4.6m deficit in 2021/22.

2.5.10 Business Ratepayers Consultation

There is a statutory requirement to consult with business ratepayers on the budget proposal. The consultation has commenced and any responses will be reported at the meeting.

3. MEDIUM TERM FINANCIAL PLAN

- 3.1 The implementation of the Local Government Act 2003, which introduced a requirement for the Council's Chief Financial Officer to comment on the robustness of the Council's estimates, and the need to look at the medium term (3 years) in order to produce the required indicators as detailed in the Prudential Code, means greater emphasis needs to be placed on the Council's medium term financial planning. Although an absolute requirement to look over three years is required, it is considered good practice to look over as long a period as is reasonable. This Council has a history of producing a Medium Term Financial Plan (MTFP) over a 5 year horizon and this is still considered the appropriate period for this authority.
- 3.2 The MTFP 2021/22 to 2025/26 is presented against a backdrop of major and unprecedented uncertainty, primarily due to the Covid-19 pandemic, which has resulted in difficulties in forecasting both funding and spending pressures beyond next year, namely:
- One year Government Spending Round and one year Local Government Finance Settlement;
 - A further deferral in planned local government finance reforms, the Fair Funding Review and Business Rates Retention, now expected to be announced with Settlement late in 2021;
 - Covid expenditure pressures and income reductions are uncertain;
 - Downward pressure on pay awards (see note below).

3.3 The following table identifies the impact of all the proposals and assumptions that are contained in this report:

- Planned budget reductions and efficiency savings (paragraph 2.5.3)
- The incremental increase in base revenue expenditure from 2020/21 and budget growth items (paragraph 2.5.4);
- Pay Award of 2% per annum 2021/26. It should be noted that the Chancellor of the Exchequer announced a 2021/22 pay freeze for public sector workers earning above £24,000 pa and 1% for those earning less (excluding NHS staff). The Local Government pay award is not determined by Central Government and is subject to separate negotiation. Whilst the Central Government pay award usually indicates similar restraint in local government these are not normal times. Local Government staff have also been key workers at the forefront of Covid support to its communities and that, together with previous pay restraint over the long period of austerity still meaning many have not received a real terms increase in pay since that time, and the Government's target for inflation remaining at 2% for the MTFP period, it is considered prudent to retain this as the pay award forecast.
- Fees and charges to be increased by an average 3% (paragraph 2.5.5);
- Anticipated cost of borrowing to finance the capital programme for 2021/2026;
- A £5 Band D Council Tax increase (42p per month for a Band D property and 28p per month for a Band A property) has been assumed for 2021/22. Beyond that a £5 or 2% Council Tax increase, whichever greater, has been assumed for each year of the MTFP in line with the maximum possible without triggering a referendum. However, future council tax increases will be dependent upon future spending decisions, total local government funding and the achievement of efficiency savings;
- Reclassification of Earmarked Reserves back to General Fund Balance in 2022/23 £500,000 (subject to review as detailed in paragraph 2.5.7)

Based on the current information available, in order to achieve a balanced MTFP and ensure the Council's balances do not fall below the minimum required, additional ongoing budget reductions or funding increases of £600,000 will be required in the following profile: **£500,000 in 2022/23; £100,000 in 2024/25** and these are included in the summary MTFP table below. Any new demand pressures arising will require an increase in these budget reduction/savings projections to maintain a balanced budget.

Whilst these budget reductions are not yet supported by outline business plans meaning this aspect of the financial plan is less robust, given the prevailing backdrop of funding uncertainty detailed in paragraph 3.2 and that the first savings are not proposed for delivery until year 2 of the MTFP this gives the Council a good lead in time for developing detailed plans if required. The Council will not be complacent and will consider options for potential budget reduction options during 2021/22 which can be implemented from 2022/23 in

the event that additional funding is not available in the next Local Government Finance Settlement.

The table below demonstrates a balanced medium term plan with a projected surplus on balances at the end of year 5 (2025/26). Whilst the budget still requires a contribution from balances in year 5, the inclusion of a higher savings projection to that detailed above is not recommended due to the uncertainties surrounding the future of local government funding. Given the many variables in the medium term financial plan there will be sufficient time to address any future imbalance that may arise.

MEDIUM TERM FINANCIAL PLAN 2021/22 TO 2025/26 - HIGH LEVEL SUMMARY

	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £
Net Council Budget	11,654,300	11,381,700	11,366,700	11,410,600	11,672,700
Financed by					
SFA Business Rates Baseline	(3,076,400)	(3,138,000)	(3,200,700)	(3,264,800)	(3,330,000)
SFA – Revenue Support Grant	0	0	0	0	0
Lower Tier Grant	(131,000)	0	0	0	0
NNDR Growth/ Collection Fund(Surplus)/Deficit/ S31 Grant	(726,800)	(520,000)	(520,000)	(700,000)	(700,000)
NNDR Losses Grant	(656,900)	0	0	0	0
NDR Deficit re Reliefs 2020/21	4,621,000	0	0	0	0
Council Tax Deficit/Losses Grant/CTRS Support	(131,000)	19,100	19,100	0	0
New Home Bonus - Current	(2,200)	0	0	0	0
New Homes Bonus - Legacy	(104,300)	(93,100)	0	0	0
Less: Amount (from)/to Balances	(4,975,600)	(924,900)	(673,600)	(183,500)	(114,900)
Council Tax Requirement	6,471,100	6,724,800	6,991,500	7,262,300	7,527,800
Council Tax increase	£5 (2.97%)	£5 (2.89%)	£5 (2.81%)	£5 (2.73%)	£5 (2.66%)
Tax Base	37,390	37,765	38,190	38,615	38,990

The MTFP above assumes that a £5 increase will be applied between 2021/22 and 2025/26 but the actual increase will be determined on an annual basis by Council.

Expected balances at year end	2,398,700	1,973,800	1,300,200	1,116,600	1,001,800
Required balance	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
(Surplus)/Deficit on required balances	(1,398,700)	(973,800)	(300,200)	(116,600)	(1,800)

Note: Actual General Fund Balance at 1 April 2020 was £3,909,200 and the estimated balance at 1 April 2021 is £7,374,300 which includes the s31 grant for the funding of 2020/21 business rates reliefs, which will fund the related Collection Fund deficit of £4,621,000 (as detailed in 2.5.9 and the table above). Estimated balances assumed the reclassification of £500,000 of Earmarked Reserves back to General Fund Balance in 2022/23.

4. **COUNCIL TAX**

- 4.1 The Council Taxpayer has to meet the difference between the planned expenditure and the Government grant receivable after the use of any balances are taken into account. It is this difference that is used to calculate individual Council Tax bills for 2021/22.
- 4.2 Gedling's share of the council tax for a band D property for 2020/21 is £168.07. The level of council tax for 2021/22 depends on the extent of service reductions/developments and financial risk issues (see paragraph 5 below) that the Council decides to provide for in the budget for next year. For illustration, an increase in council tax by 1% provides additional funding of £62,800. In the above MTFP a £5 (equivalent to 2.97%) increase has been assumed for 2021/22. **The MTFP at paragraph 3.2 assumes that a £5 increase will be applied for the whole period of the plan but the actual increase will be determined on an annual basis by Council.** The maximum council tax increase that a shire district can apply without triggering a referendum is £5 or 2%, whichever is greater. To illustrate the impact of the £5 increase, the overall position in terms of the increase for the year ahead on each band would be as follows:

Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
£3.33	£3.89	£4.44	£5.00	£6.11	£7.22	£8.33	£10.00

5. **ROBUSTNESS OF ESTIMATES**

- 5.1 Sections 25 and 26 of the Local Government Act 2003 place a personal duty on the Chief Finance Officer to make a report to Council when considering its budget and Council Tax. The report must deal with the robustness of the estimates and the adequacy of reserves.

The Act requires Members to "have due regard to the report in making their decisions". Where this advice is not accepted, it should be formally recorded within the minutes of the Council Meeting.

Under Section 25 of the Local Government Act 2003 the Section 151 Officer is required to provide a commentary assessing the robustness of the estimates when Cabinet and Council are considering the budget proposals.

The key strategic risks in considering the 2021/22 revenue budget proposals and Capital Programme in the context of the Medium Term Financial Plan are detailed in paragraphs 5.2 to 5.8 below.

5.2 **Financial Settlement/Funding Streams**

The originally planned 2019 Comprehensive Spending Review was deferred due to Brexit and the subsequently intended 2020 Comprehensive Spending Review has been deferred due to the Covid-19 pandemic resulting a second, one year only Local Government Finance Settlement. The deferral of the CSR

for 2 years has had a knock on impact onto the timing of the planned local government finance reforms i.e. Fair Funding Review and Business Rates Retention with these also being deferred. This means that Councils still have no clarity or certainty of how services will be funded beyond next year which presents incredible challenges, inhibiting meaningful financial planning and the development of a sustainable medium term financial plan. This is further exacerbated by the uncertainties resulting from Covid in terms of ongoing budget pressures and how they will be financed.

Prior to the announced deferral of the 2020 Comprehensive Spending Review in March the Treasury indicated that the Spending Review envelope would be less generous than the 2020/21 spending round and that the Chancellor would increase funds for the NHS but few other areas, and in launching the Spending Review he was clear that given the impact on the economy there will need to be tough choices in other areas of spending asking departments to identify opportunities to reprioritise and deliver savings, indicating that there will be no significant increase in funding. Whilst ultimately the 2020 Spending Round announced a 4.5% real terms increase in Core Spending Power for the local government sector in 2021/22, this has not applied to Gedling which only reported a 1.4% cash (i.e. not real terms) increase. There is also no commitment to full funding for Covid-related pressures. The overall message is one of continuing financial restraint which in itself creates some degree of inherent risk. The following specific items carry a particular risk for this authority:

- **Business rates retention/Fair Funding Review**: The extension of the business rates retention scheme and implementation of the Fair Funding Review was planned for 2020/21 but this has now been delayed for a second year until 2022/23 to coincide with the next spending review period with announcements on wider local government finance reforms expected in time for the Local Government Finance Settlement 2022/23. The Government continues to pilot the 100% business rates retention scheme but has not introduced and new pilots in 2021/22.

The 2021/22 settlement is for a another one year period only and it is a concern that there is no clarity over funding levels after March 2022. This hampers meaningful financial planning at a time when demand pressures are increasing.

The intention of the retention scheme is that it will be fiscally neutral and in order to achieve this, additional responsibilities will need to be transferred to Local Government. Any retention of business rates will still require a mechanism to ensure funding is distributed in respect of need which will create winners and losers which will be determined by the Fair Funding Review. With an obvious emphasis already included in the Spending Review to support upper tier authorities in respect of their funding for social care, there is a real risk that district councils could lose further under any new allocation process. In addition, care will be needed to ensure that new transferred responsibilities are capable of being fully funded in both the short and long term.

The current retention of business rates has shown the volatility of this funding in respect of the appeals process, the prediction of future growth, and the potential for significant local impact where a large business relocates/closes. These changes are likely to require local authorities to hold higher levels of reserves in the future.

- **New Homes Bonus**: the main body of the report at paragraph 2.4.4, identifies the significant impact that changes to this funding stream has for Gedling Borough Council due to the introduction of a 0.4% growth baseline resulting in a significantly reduced awards since 2016/17.

In line with the line with the one year only local government finance settlement, the NHB award has continued on a one year only basis for 2021/22. Previously the government has stated that it is no longer clear that the NHB in its current form is focussed on incentivising homes where they are needed most and they plan to consult on the future of the housing incentive in the spring which has been deferred due to Covid-19. Following the consultation process it is likely that the future of NHB will be considered in the context of the Fair Funding review and may even be removed as part of the 2021 Comprehensive Spending Review.

Whilst there may still be an opportunity to receive NHB in the future it is considered that there is a significant downside risk to this arising and it is not prudent to rely on this funding stream to support the revenue budget. This risk came to fruition for 2021/22 as Gedling received a zero award because growth was below the threshold. Therefore the MTFP assumes future payments will be zero. In the event that the Council does receive some NHB in the future, this will be used to support projects or be transferred to balances to support future budget setting.

- **Council Tax**: The Government's Core Spending Power figures are based on the assumption that Council Tax will be increased by 2% or £5 per annum whichever is greater and that growth in the tax base will recover from the adverse impact of Covid due to the increased Council Tax Reduction Scheme caseload and will increase by the creation of additional hereditaments. These may be optimistic assumptions and in any case leave very little room for local discretion to set a higher Council Tax in order to plug any funding gaps. The MTFP contained in this report assumes that a £5 increase will be applied between 2021/22 and 2025/26 but the actual increase will be determined on an annual basis by Council. In the absence of additional ongoing funding in the local government finance settlement, any Council Tax increase below the £5 will require an increase in the efficiency/budget reduction targets to ensure that a balanced MTFP is secured.
- **COVID19**: There remains a significant amount of uncertainty and risk around the financial impact of Covid-19 in the medium terms in respect of the ongoing response work that may be required, increased demand pressures arising from the economic downturn e.g. increased business closures and unemployment, and the ongoing impact on income for

Council services e.g. leisure, and local tax collection reductions. There remains a risk that the Covid financial impacts are higher than estimated and in the absence of additional government funding these will need to be met from an increase in savings/budget reductions in other Council services.

- **Economic Growth/Inflation**: The Chancellor announced that there would be no autumn budget and a one year only spending review for 2020 to enable a focus on managing the Covid-19 pandemic. Covid-19 has had a major adverse impact on the economy and the related ongoing uncertainty creates major challenges for economic forecasting. With effective vaccines the economic outlook is improved which may allow GDP to rise back to pre-pandemic levels late in 2022, a year earlier than expected and meaning that unemployment might peak at 7% in 2021 rather than 9%. The final Brexit trade agreement was reached in December 2020 eliminating a significant downside risk for the UK economy. There is further work to be done on to reach a permanent agreement in respect of the services sector. Without a multi-year settlement or an understanding of what the Fair Funding Review or business rates retention will bring any future pressure arising from an economic downturn e.g. business closures, additional support for the vulnerable, would need to be managed within local resources i.e. from further budget reductions or efficiencies.

Inflation assumptions have been incorporated in the MTFP as detailed in Appendix 3, including pay award. The Chancellor removed the 1% public sector pay cap in 2018/19 and since then pay increases equated to an average 3% for 2018/19, 3.1% for 2019/20 and 2.75% in 2020/21. These increases still do not represent a real terms increase at a level that recovers the pay freezes experienced through the previous years of austerity. The Chancellor of the Exchequer has announced a 2021/22 pay freeze for public sector workers earning above £24,000 pa and 1% for those earning less (excluding NHS staff). The Local Government pay award is not determined by Central Government and is subject to separate negotiation. Whilst the Central Government pay award usually indicates similar restraint in local government these are not normal times and with the Government's target for inflation remaining at 2% for the MTFP period, it is considered prudent to retain this as the pay award forecast. However, given the uncertainties in the economy present there is an upside financial risk that future awards could be lower than 2% if a period of public sector austerity ensues and is reflected in local government finance reforms and Settlement.

- 5.3 A minimum balance of £1m on the General Fund is recommended by the Chief Financial Officer to be a prudent amount given the scale of the business conducted by the Council. The external auditor regards this level of balance on the General Fund to be satisfactory, and it is also appropriate to reflect uncertainties in the financial position in the medium term.

- 5.4 The (surplus)/deficit on balances in the MTFP table in 3.2 shows amounts (above)/below the recommended minimum General Fund balance in any one year. Current spending plans show a surplus of £1,398,700 in 2021/22 declining to £1,800 by the end of 2025/26. Achievement of this position is reliant upon efficiency plans being progressed and delivered during the period of the MTFP or additional funding being made available via the local government finance reforms. Underlying this is an annual deficit between the amounts of income expected and anticipated expenditure which needs to be managed beyond the five-year horizon but this is significantly reduced to manageable levels with the inclusion of the efficiency/savings programmes. However this still does not leave significant capacity to manage future budget and inflation pressures that may arise which will have to be managed by further budget reductions.

The Council has a substantial programme of budget reductions planned for delivery, as detailed in paragraph 2.5.3. Whilst risk provisions and transformation funds have previously been approved, (which mitigate the risk of non-delivery) and in the main the delivery of the programme has gone well, more recently difficulties have been experienced particularly with regards to projects that contain uncertainties inherent in more innovative commercial approaches and the impacts of Covid-19 which presents an increasing downside risk to successful delivery. Programmes are regularly monitored and progress reported to Cabinet to manage this risk and as detailed in paragraph 2.5.3 new efficiency proposals recommended to ensure this downside risk is effectively managed.

The challenges that lie ahead remain equal to those in previous years, but this plan is considered robust. Gedling is not alone in facing this challenge - it is a national problem - and it is better placed than most councils to react and to develop strategies to meet the set efficiency targets.

- 5.5 Initiatives introduced to manage within reduced resources bring increased risks both financially and in terms of service delivery. For example:
- Reduced maintenance budgets – can be accommodated in the medium term but may bring pressures in the longer term as major capital investment plans may need to be accelerated as assets deteriorate faster. Increased public building maintenance budgets have been included in the capital budget proposals to mitigate this risk;
 - Earmarked reserves for specific purposes/risk management have been reviewed and will be managed at minimum requirement levels providing less scope for managing emerging risks. However, additional reserves have been set aside for the potential staffing redundancy/transfer costs in respect of the move of rent allowance payments to the Universal Credit system which has again been delayed.
- 5.6 The Authority continues with activities undertaken in association with a variety of partners. This requires reliance on partnership funding and/or the delivery of integrated programmes and is an approach which is integral to the Council's efficiency programme. However, a significant number of the Council's partners

are public sector organisations which are also facing significant budget pressures and changing roles. This places increasing risk on the Council both directly, in respect of possible withdrawal of partnership funding, and indirectly, with the Council potentially facing additional burdens resulting from budget cuts in other organisations. This is especially true in respect of the most vulnerable in society which could therefore have a direct impact families initiatives, homelessness and those with specialist housing need.

- 5.7 There is an increased risk arising from these assumptions and it has been necessary to increase minimum balances to £1m from 7.5% of net projected expenditure (approx. £850,000). As the Council is responding to the challenges through efficiency measures and service reductions it is considered that the annual and medium term budgets are robust, but given the above risk assessment the achievement of the estimated Medium Term Financial Plan will not be easy to deliver.
- 5.8 Given the Council’s excellent track record for budget management, careful budget monitoring and financial planning, which will continue, the structural deficit that remains in the Medium Term Financial Plan is considered to still be at a manageable level, although it should be expected that there may need to be some contraction of service delivery/performance if existing efficiency plans do not proceed in line with expectations or there are funding reductions following the implementation of the Fair Funding Review.

6. Risk Assessment

Gedling needs to review its Financial Strategy and Medium Term Financial Plan annually to ensure its projected expenditure is balanced with the income it receives, and where it doesn’t, or is projected not to, corrective action needs to be identified and put in hand.

Risk	Impact	Comments
Time	Medium	<p>Gedling has always aimed to be at least one year ahead of the budget reductions it needs to make, so that any changes required are as trouble free as possible.</p> <p>Efficiency plans to meet the approved targets will continue to be implemented over the next 4 years to help balance the MTFP.</p>

Viability	Medium	The ongoing deferral of the Comprehensive Spending Review (CSR) and local government finance reforms and resulting one year only Settlement, together with the reduction in New Homes Bonus and ongoing impacts of Covid19, increases the risks to the finances of the Council; Whilst it has reserves to cushion the impact, these are quickly reducing and delivery of the approved efficiency programmes will be essential.
Finance	Medium	With the continued removal of central government support, the Council will increasingly rely on income generated by local fees and charges, and council tax, and these will need to consistently increased year on year to offset the momentum of continual reductions in available budgets. Covid19 presents an additional risk to income levels for which the recovery period in uncertain
Profile	Medium	The achievement of a balanced and sustainable MTFP is reliant upon the effective delivery of the efficiency programme, with £1.2m planned for delivery 2021/22 to 2024/25. In the absence of additional funding following the next CSR, further budget reductions of £0.6m over 2022/23 to 2024/25 will be required.
Adaptability	High	Working with partners will be essential to successfully respond to the challenges that face the Council. The joint work with the DWP has provided a positive model of partnership working and Gedling is working more closely with the Police and the local Clinical Commissioning Group to work laterally across the sector.

7. **Equality Issues**

The Council has a duty under the Equality Act 2010 to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between protected groups (such as disabled people or ethnic minority groups) when considering proposed new or changing policies, services or functions, including decisions on funding for services.

Service Managers have been asked to assess the equalities impact of the proposals for service changes contained in this report. It is not anticipated that there will be any significant cumulative impact on any protected group arising from these budget proposals.

Where appropriate, individual Equality Impact Assessments will be carried out in relation to specific proposals identified in this report. Any equality issues arising will be brought to the attention of the decision maker when the decisions on those proposals are made.

8. Key Decision Thresholds

In accordance with the Council's Constitution, full Council will in each year determine the financial thresholds for each service or function above which expenditure or saving is regarded to be significant and should therefore be regarded as a Key Decision. Traditionally the threshold has operated at above £0.5m and it is proposed that this value be continued for 2021/22.

9. Alternative Options

Cabinet could consider recommending an alternative budget and service plan. Recommending an alternative budget may alter the level of recommended Council Tax for 2021/22. If Cabinet chose not to recommend a budget to Council this would be in contravention of the Council's Constitution and would not be in compliance with the Local Government Finance Act 1992.

10. Financial Implications

As detailed in the report.

11. Legal Implications

It is a statutory requirement under Local Government Finance Act 1992 that the budget is presented to Council for approval. The budget has been prepared taking into account the Council's Gedling Plan priorities and Council objectives for the coming year, as well as with regard to statutory requirements.

12. Carbon Reduction/Environmental Sustainability Implications

The Council has committed through the Gedling Plan to promote a sustainable environment, recognising the responsibility it has to safeguard the local environment by reducing its own Carbon Footprint, and working with the local community to reduce global warming. This commitment impacts on the budget in terms of investments and expenditure required to deliver such changes, and in considering the risk of climate change to the Council in terms of impact on its residents and delivery of services.

13. Appendices

- Appendix 1 - Local Government Association Settlement Briefing
- Appendix 2 - Detailed Gedling Plan Portfolio Budgets 2021/22
- Appendix 3 - Major Price Indices – Medium Term Financial Plan
- Appendix 4 - Movement on Earmarked Reserves
- Appendix 5 - Council Tax Collection Fund Estimate 2021/22
- Appendix 6 - Summary of Budget Reduction Proposals 2021/22 – 2024/25

14. Background Papers

- Central Government Report – Local Government Finance Report 2021/22
- Prudential and Treasury Indicators and Treasury Management Strategy Statement 2021/22
- Capital Programme and Capital Investment Strategy 2021/22 to 2025/26
- Gedling Plan 2020/21 to 2022/23

15. Reasons for Recommendations

To obtain approval of the General Fund Revenue Budget 2021/22 for referral to Council.

Statutory Officer approval:

Approved by: Chief Financial Officer

Date: 2 February 2021

Approved by: Monitoring Officer

Date: 2 February 2021