

3 November 2020

Subject: **Medium Term Financial Strategy - Budget 2021/22 Assumptions**

Cabinet Member: **Cllr Pauline Church – Cabinet member for Finance and Procurement, and Commercial Investment**

Key Decision: **Non Key**

Executive Summary

This report provides members with the assumptions that are being used in setting the budget for 2021/22, reflecting the significant impacts that the COVID-19 pandemic has had on the Council's assumptions that were previously made in the approved MTFS for 2021/22, not only in its base budget but also its core funding e.g. council tax, business rates and government grant.

The assumptions and their outcome give rise to the current estimated budget gap that will need to be closed in order to set a balanced budget for financial year 2021/22.

Much rests and depends on the outcome of the spending review, which Government have recently confirmed will be a one year spending review for both revenue and capital and announced in late November 2020. Work will continue over the coming months to put together proposals to balance the Council's budget as well as refine and update assumptions to reflect the most recent evidence and forecasts.

Proposal

Cabinet is asked to approve the budget assumptions being used in the setting of the 2021/22 budget and the Medium Term Financial Strategy and note the current estimated budget gap.

Reason for Proposal

To inform effective, transparent decision making and ensure sound financial management as part of the Council's overall control environment.

To inform Cabinet on the assumptions being used to assess the growth, inflation, and demand for services, the estimated level of income from sales, fees and charges and the level of income estimated from core funding e.g. council tax, business rates and government grant and how all of these aspects have been impacted by COVID-19 pandemic.

Terence Herbert – Chief Executive

Andy Brown – Interim Corporate Director Resources (S.151 Officer)

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Purpose of Report

1. To inform Members of the assumptions being used for service expenditure and income as well as core funding (e.g. council tax, business rates and government grant) in order to set a balanced budget for 2021/22 budget and update the Medium Term Financial Strategy (MTFS).
2. At this stage of the budget setting process, this resets the Council's base assumptions ahead of the crucial spending review announcement and is also before any additional saving proposals have been proposed.
3. It therefore presents at this moment in time a 2021/22 budget gap that will over the coming months will need to be addressed. At this stage it is still difficult to ascertain that the budget gap in its totality will need to be balanced because of the current level of uncertainty and critically what Government will announce in the spending review.
4. However, it is prudent at this time to make these assumptions and progress the budget 2021/22 setting process based on the current estimates.

Assumptions Review for Budget Setting 2021/22

5. As set out in the budget setting report to Cabinet in September a complete overhaul of the current MTFS base assumptions was needed to be undertaken.
6. Since that report all service lines have been reviewed and the forecasts around demand, inflation and other changes that were previously made in the MTFS that was approved in February 2020 have been updated, particularly to reflect the impact that COVID-19 has had on the ability to deliver savings, service delivery and activity.
7. The current forecasts around core funding, council tax and business rates, have also been reviewed and updated accordingly.
8. The Council currently receives no revenue support grant (RSG) from Government, however given the nature of the current financial impact on

Councils as a result of COVID-19, assumptions have also been made on the anticipated level of funding that may be received from Government.

- Below is the table that was presented to Cabinet when the current budget and MTFS was approved, this estimated at the time the total budget pressures being faced, the required level of savings needed to achieve a balanced budget after taking into account the forecast increases in core funding.

MTFS Approved February 2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
	£m	£m	£m	£m	£m
Income / Funding					
Recurring Funding					
Council Tax Requirement	(260.830)	(269.288)	(278.055)	(287.084)	(296.382)
Adult Social Care Precept	(23.893)	(23.893)	(23.893)	(23.893)	(23.893)
Rates Retention	(56.600)	(60.255)	(62.063)	(63.925)	(65.843)
Collection Fund	(2.700)				
Total Funding (= A)	(344.023)	(353.436)	(364.011)	(374.902)	(386.118)
Total Projected Recurring Expenditure					
Base budget	332.378	344.023	377.937	402.296	428.001
Growth & Pressures	34.214	29.219	24.959	24.705	26.644
Savings	(14.683)	(1.695)	(1.600)	0.000	0.000
Other changes	(7.886)	6.390	1.000	1.000	1.000
Assume Balance Gap Delivered Year Before	0.000	0.000	(24.501)	(38.285)	(53.099)
Councils Projected Budget Requirement (= B)	344.023	377.937	377.795	389.716	402.546
Budget GAP (C = A-B)	0.000	24.501	13.784	14.814	16.428

Change in Budget Presentation

- For 2021/22 there will be a change in how the budget will be presented, this is purely a change in the reporting presentation of how grant income is reported and has no impact on the resources available to fund services.
- The change will see some grants form part of the base funding requirement, as these grants are received to fund the Councils overall delivery of services rather than service specific.
- This will transfer £25m of grant funding (New Homes Bonus, Rural Services Delivery Grant, Section 31 Grants) and effectively increase the Councils budget requirement by the same amount.
- This will bring the Councils reporting in line with other Councils reporting of their budget requirements and returns into Government. The table below shows the impact of the change in presentation and revised totals.

	2020/21 BUDGET Approved Feb-20 £m	2020/21 BUDGET New Presentation £m
Council Budget		
Service Budgets	355.486	355.486
Corporate	29.566	29.566
Specific Grants	-41.029	-15.557
Net Budget Requirement	344.023	369.495
Funding		
Council Tax	-260.830	-260.830
Adult Social Care Precept	-23.893	-23.893
Business Rates	-56.600	-56.600
Collection Fund Surplus	-2.700	-2.700
Government Grants	0.000	-25.472
Total Funding	-344.023	-369.495

Update on Assumptions for Service Expenditure and Income

14. The table in paragraph 9 sets out within the approved MTFS over £29m of growth and pressures had already been estimated. A proportion of this was to allow for core assumptions around pay and contractual inflation, with pay inflation at 2.5% (£4.9m) and contractual inflation on average around just over 2% (£7.7m) however there are some outliers with respect to inflation on contracts.
15. Inflation on some activities, most notably utilities and FM contracts are expected to be higher ranging between 2% and 5%.
16. Significant levels of Adult Social Care demand had also already been allowed for within the £29m, with a 2.1% increase in demographic growth across all adult social care services allowed for. Although some of this demand has now been amended to reflect current demand levels as a result of the current pandemic.
17. Demand for Looked After Children placements is increasing by an estimated 50 places, allowing for latent demand, and make up a significant increase in the level of extra demand over and above that which was included in the original £29m.
18. Savings that have not been delivered have also been reflected in the revised budget to ensure that the base assumption reflects the most up to date position. Where savings have been identified as not been delivered, and are forecast likely to remain undelivered, they have been factored in as a pressure i.e. a growth in the base budget.
19. Increase costs as a result of COVID-19 and the impact of safe distancing guidelines e.g. additional cleaning have been factored into the base budget for 2021/22.
20. A significant impact though is the assessment of reduced levels of income from services e.g. car parking, planning etc. Whilst the lost income is not forecast to be as high as the level seen in this financial year, an assessment of ongoing

behavioural changes going forward into 2021/22 will see income budgets reduced by 10% to 30% in some services, at a total impact of £4.4m.

21. A one off increase for Elections has been allowed for in 2021/22, with the election expected to cost around £1.2m in total.

Council Tax

22. The level of income the Council receives from Council Tax in future is based on two variables; council tax price increases and the number of properties charged, referred to as the tax base.
23. For 2021/22 the general increase up to the current referendum threshold is still anticipated. This is currently at 1.99% with the referendum threshold assumed at 2% although this will be confirmed by the Secretary of State likely in the new year.
24. A significant change in assumptions is the inclusion of the Adult Social Care precept, at 2% on top of the general increase. Although the last year of the precept should have been this year, it is believed that Government will make an announcement at the spending review. The money raised from the precept will be passported in full to Adult Social Care budget.
25. The tax base had been expected to increase in 2020/21 as new houses were either built or brought back into use. Largely in Wiltshire this has held as forecast, but this in part is due to Ministry of Defence properties. For 2021/22 the tax base attributable to new house building is anticipated to only increase by 0.5% as opposed to the previous 1%.
26. In addition, the increase in universal credit, from 17,500 before the pandemic to over 32,000 in September 2020, has the knock on result of reducing the tax base as residents can become eligible for the Council's Local Council Tax Support (LCTS) scheme and therefore only eligible to pay 20% of the council tax whereas previously they would have paid 100%. Those working age residents eligible for LCTS has increased from October 2019 to October 2020 by the equivalent of 1,802 band D properties, from 9,088 to 10,890.
27. As a result, the tax base this year has therefore reduced and the base needs to be amended for the reduction. The budget approved in February estimated a tax base of 187,936 band D properties during 2020/21. The table below shows the revised assumptions on the number of properties and the subsequent income raised in line with the price increases outlined above.

Council Tax Base				
Band D Properties	2021/22	2022/23	2023/24	2024/25
Original MTFS	190,379	192,283	194,206	196,148
Revised Assumption	185,389	187,243	189,115	191,006

Council Tax Raised				
£ Million	2021/22	2022/23	2023/24	2024/25
Original MTFS	269.288	278.055	287.084	296.382
Revised Assumption	262.560	271.237	280.347	289.911

28. The council tax base for 2021/22 and beyond will be kept as draft, with a further review at the end November and then finalised at the start of December after the impacts on the ending of the furlough scheme are known.
29. Parish and Town Councils will be communicated the draft tax base for their respective area during the first week of November and then communicated the final numbers in December, as there are likely to be a wide ranging impact on individual parish and town areas depending on their circumstances.
30. As per the Quarter 2 budget monitoring report it is anticipated that at this stage any deficit on the collection fund will be managed within the current financial year.

Business Rates

31. This area has been almost impossible to predict. Given the complexity of the scheme and the level of emergency reliefs issued, £68m were issued in April on top of the £90m+ business grants, it is hard to forecast what businesses will be trading come April 2021, as well as whether business rates will return to their previous billing level and mechanism.
32. Given the level of Government support this year, and the previous small business rate reliefs issued in the past it is inevitable that there will be some level of Government support in 2021/22, either universal or sector targeted.
33. Therefore, within the MTFS the previous level of business rates growth, at 3%, has been removed. Crucially though an assumption that either the Government will continue to support or that businesses in Wiltshire will be able to pay the business rates from April 2021.

Government Grants

34. In 2020/21 the Council budgeted to receive no Revenue Support Grant (RSG) the main support grant received by Councils from the Government. However, as a result of the COVID-19 pandemic the Council has received £32m in emergency funding as well as receiving other specific funding streams e.g. infection control fund.
35. In 2021/22 it is assumed the government grants that were received will remain and will continue cash flat/ although planned reductions in the new homes bonus grant will continue as previously forecast.
36. Two grants currently being received this year, the Rural Services Delivery Grant (£3.3m) and the Independent Living Fund (£1.1m), have been reinstated for 2021/22 as the previous MTFS had assumed they would cease.
37. Given the scale of financial impact on Councils there is a recognition that the Government will provide some level of financial support. As it is even with these assumptions there will still be a challenge to close the current budget gap.

38. It has therefore been assumed that the hardship grant that was received to offset the impact of residents moving on to universal credit and therefore not paying as much council tax as they would normally have been to has been included at £3m.
39. Also, the current income loss scheme being operated by the Government will continue in some manner during 2021/22, albeit at a lesser rate than the current scheme is operating. An assumption of £2m, to offset the anticipated reduction in income outlined in this report has been made.
40. Lastly it is also assumed that given the current circumstances that in 2021/22 there will be some level of emergency funding to support Councils providing vital services in the year. A level of £5m funding has been assumed in the assumptions for the 2021/22 budget.

Estimated Current Budget Gap

41. Before the revision of assumptions, the previous MTFS had already outlined a budget gap of £24.5m.
42. Normally this gap would have been proactively addressed during the Summer with proposals being considered and brought forward to close the budget gap, but the response and recovery to the COVID-19 pandemic has resulted in the Councils focus and resource, quite rightly, being elsewhere.
43. In addition the financial scale, uncertainty and volatility with a significant amount depending on the Governments spending review means that planning will be still be a challenge, however over the coming months plans will be formalised and together with the outcome of the spending review presented to Cabinet on 5 January 2021.
44. The revised assumptions, most significantly the impact on Council Tax, and then the new funding to be resumed from Government has seen the overall budget gap increase from £24.5m to £29.4m.
45. The current assumptions are however not fixed and will be continually amended and reflected with the latest evidence and forecasts before the budget proposals are presented to Cabinet in January.
46. The table below provides a high level summary of the movement in the budget gap from the £24.5m in February 2020 to the current estimated gap now.

Estimated Budget Gap	Budget 2021/2022
	£m
Growth & Pressures	29.219
Savings	-1.695
Other Base Changes	6.390
Additional Core Funding (ctax, nndr)	-9.413
Previously Presented GAP	24.501
Demand/Inflation	5.888
Income Budget Adjustments - COVID	4.381
Income Budget Adjustments - Other	0.560
Savings Not Deliverable	3.247
Other Base Changes	4.131
New Government Grants	-14.397
Reduction in Assumed Council Tax	6.728
Adult Social Care Precept	-5.617
Revised Budget GAP	29.422

Implications

47. This report informs Members' future decision making and is part of the Council's budget setting process for 2021/22.

Overview & Scrutiny Engagement

48. Regular reports are taken to Overview & Scrutiny relating to the Council's financial position.

Safeguarding Implications

49. None have been identified as arising directly from this report.

Public Health Implications

50. None have been identified as arising directly from this report.

Procurement Implications

51. None have been identified as arising directly from this report.

Equalities and diversity impact of the proposals

52. None have been identified as arising directly from this report.

Environmental and Climate Change Considerations

53. None have been identified as arising directly from this report.

Risks Assessment

54. The risks around the financial implications of COVID-19 on the Council have been well documented and reported on a regularly basis and this will continue for the remainder of the current financial year.
55. This marks the start of the setting of the next financial year budget, part of that process will set out the risks facing the Council, quantify them financially and

then also advise on the level of reserves that should be held to deal with those risks.

56. Risks associated with service delivery will be raised as and when proposals are brought forward.

Legal Implications

57. None have been identified as arising directly from this report.

Proposals

58. Cabinet is asked to approve the budget assumptions being used in the setting of the 2021/22 budget and the Medium Term Financial Strategy and note the current estimated budget gap.

Reasons for Proposals

59. To inform effective decision making and ensure the progression of the Council setting the 2021/22 budget.

Andy Brown, Interim Corporate Director Resources (Section151 Officer)
andy.brown@wiltshire.gov.uk

Report Authors:

Andy Brown, Interim Corporate Director Resources (Section151 Officer)

Appendices:

None

Background Papers and Consultation

None