Rushcliffe Borough Council	**Council** **Thursday, 4 March 2021** **2021/22 Budget and Financial Strategy**

Report of the Executive Manager – Finance and Corporate Services

Portfolio Holder for Borough Wide and Strategic Leadership, Councillor S J Robinson

1. Purpose of report

1.1 This report presents the detail of the 2021/22 budget, the five-year Medium Term Financial Strategy (MTFS) from 2021/22 to 2025/26, which includes the revenue budget, the proposed Capital Programme, the Transformation Strategy and the Capital and Investment Strategy (with associated prudential indicators).

1.2 Cabinet have considered the attached budget and strategies and recommended their acceptance by Council along with the resultant decisions regarding Rushcliffe's Band D Council Tax and Special Expenses for 2021/22. The Governance Scrutiny Group has also recommended the Capital and Investment Strategy for adoption by Full Council.

1.3 The final financial settlement has been received from Central Government with no significant changes from the draft settlement.

2. Recommendation

It is RECOMMENDED that Council:

a) accepts the report of the Council's Responsible Financial Officer on the robustness of the Council's budget and the adequacy of reserves (as detailed at **Annex A**);

b) adopts the budget setting report and associated financial strategies 2021/22 to 2025/26 (attached **Annex B**) including the Transformation Strategy and Efficiency Plan (**Appendix 3**) to deliver efficiencies over the five-year period;

c) adopts the Capital Programme as set out in **Appendix 4**;

d) adopts the Capital and Investment Strategy at **Appendix 5**;

e) sets Rushcliffe's 2021/22 Council Tax for a Band D property at £147.36 (increase from 2020/21 of £4.62 or 3.24%);

f) sets the Special Expenses for West Bridgford, Ruddington and Keyworth, **Appendix 1**, resulting in the following Band D Council tax levels for the Special Expense Areas:

i) West Bridgford £49.65 (£48.51 in 2020/21);

ii) Keyworth £3.41 (£3.76 in 2020/21);

iii) Ruddington £4.00 (£4.12 in 2020/21);

g) With regards to recommendations e) and f), sets the associated Bands in accordance with the formula in section 36(1) of the Local Government Finance Act 1992; and

h) adopts the Pay Policy Statement at **Appendix 7**.

3. Reasons for Recommendation

To comply with the Local Government Finance Act (1972) and ensuring the budget enables corporate objectives to be achieved. The Council is required to set a balanced budget and that it has adequate funds and reserves to address its risks. The impact of Covid on Council budgets makes it even more important that the Council is prudent and ensures that it can support short term deficits and has adequate reserves going forward.

4. Supporting Information

The Budget and Associated Strategies

4.1 The attached report and appendices detail the following:

a. The anticipated changes in funding over the five-year period;

b. The financial settlement for 2021/22 and the significant budget pressures the Council must address over the Medium Term including the impact of Covid;

c. The budget assumptions that have been used in developing the 2021/22 budget and MTFS;

d. The detailed budget proposals for 2021/22 including the Transformation Strategy (and associated programme) to deliver the anticipated efficiency and savings requirement;

e. The recommended levels of Council Tax for Band D properties for the Council and its special expense areas of West Bridgford, Ruddington and Keyworth;

f. The projected position with the Council's reserves over the medium term;

g. Risks associated with the budget and the MTFS;

h. The proposed Capital Programme;

i. The proposed Capital and Investment Strategy; and

j. The proposed Pay Policy Statement.

4.2 The salient points within the MTFS are as follows (MTFS report (**Annex B**) references in parenthesis):

a. It is proposed that Council Tax for 2021/22 will increase by £4.62 (less than 9p per week) to £147.36 (3.24%). This still means that Rushcliffe's Council Tax remains the lowest in Nottinghamshire and amongst the lowest in the country (Section 3.4);

b. Special expenses increasing slightly £733k (£712k 2020/21) this results in Band D charges for West Bridgford increasing by £1.14 (just over 2p per week) from 2020/21 (£49.65 from £48.51), Keyworth decreasing from £3.76 to £3.41 and Ruddington decreasing from £4.12 to £4.00 (Section 3.5);

c. Business Rates (Section 3.3) are still subject to significant uncertainty given the potential longer term impact of Covid, the Government's deferral of the review of the Business Rates system to 2022/23 (delayed from 2021/22) and risk surrounding the de-commissioning of Ratcliffe-on-Soar power station in 2025 all making forecasting the likely levels of business rates difficult. The Council has prudently budgeted at Safety Net plus renewable energy receipts and is anticipating £2.820m in retained business rates in 2021/22 and a reduction thereafter to reflect the anticipated changes to the Business Rates system in 2022/23;

d. The Council no longer receives Revenue Support grant (reduced to zero in 2019/20) and represents a reduction of £3.25m from 2013/14 (Section 3.6). Importantly the Council has mitigated the loss of income through its Transformation Strategy;

e. The budget for 2021/22 and 2022/23 includes the anticipated effects of Covid on the income receipts (estimated at 20% and 10% reductions against normal income levels, respectively) with Government grant support anticipated to be £0.8m. There is an anticipated budget deficit of approximately £1.5m over the next two years (funded by reserves) moving to a surplus position in 2023/24 when reserves will be replenished. There is minimal growth included in the budget proposals with a zero pay award in 2021/22 and 2022/23. Financing costs of anticipated borrowing for two large projects (Bingham Leisure Hub and the Crematorium) are reflected in the estimates;

f. It is proposed not to increase car parking charges this will assist in the economic recovery following the pandemic and ensures the continuing support of the Council to the retail sector (Section 3.8);

g. Taking into account resource predictions, spending plans and savings already identified there is a Transformation Programme requirement of around £0.253m in 2021/22 rising to £1.691m by 2024/25 (Section 7);

h. The Transformation Strategy continues to roll forward with an updated programme to ensure the savings required can be achieved (Appendix 3);

i. Due to the Government's recent announcement regarding restrictions in accessing PWLB borrowing, the Council has revised its Asset Investment Plans, ceasing its Asset Investment Programme and returning the uncommitted balance of the Asset Investment Strategy. The Council's existing investments continue to play a crucial part in balancing the budget and ensuring the Council is largely self-sufficient. The Council has recently procured two new units at Edwalton Business Park and along with existing investments will contribute £2.302m over the period of the MTFS accounting for 24.6% of fees and charges income. This is continually managed and proportionate given the risks and opportunities associated with such investments (Appendix 5, Table 13);

j. The Council has a number of earmarked reserves (excluding NHB reserve), their balance rising over five years from £6.3m to £7.3m (Section 6). Retaining sufficient reserves is essential given the volatile financial environment we currently operate in (see risks highlighted below) along with the need to effectively deliver significant projects such as the Bingham Leisure Hub and the Crematorium;

k. Two new reserves were created in 2020/21: Development Corporation Reserve (funded from both 2019/20 in year efficiencies and £0.2m from the Climate Change Action Reserve) and the Climate Change Action Reserve (from last year's budget). Despite the pressures caused by Covid in 2020/21, both reserves have been retained with respective values of £0.5m and £0.8m focusing on key objectives of both economic growth and supporting the environment. Planned utilisation of the Organisation Stabilisation Reserve will be replenished in the final three years of the MTFS as the budget moves into a surplus position. Any in-year surpluses the Council may generate, for example as a result of a more favourable position on Business Rates, will be used to smooth the impact on the reserves sooner than planned;

l. Key risks to the MTFS are highlighted, including Covid, the Fair Funding Review, New Homes Bonus, the volatility caused by the aforementioned various business rates issues and the impact of climate change on revenue and capital costs (Section 8); and

m. The Capital Programme demonstrates the Council's commitment to deliver more efficient services, improve its leisure facilities, and to facilitate both economic development and housing growth. Spend over the five years is estimated at £38.885m. It is planned to use all available Capital Receipts by 2022/23 to fund the programme and to minimise external borrowing which is planned at £7.5m over 2021/22 and 2022/23 (to fund the Bingham Leisure Hub and the Crematorium). Capital resources are then projected to increase over the five-year period as a result of the expected Capital Receipts in relation to sale of land at Cotgrave and the overage agreement in place for development at Sharphill. By 2025/26, Capital Resources are estimated to be at £5.1m (Section 9). The timing of receipts will inform any borrowing requirements.

4.3 The MTFS has been developed at a time of significant financial challenge both nationally and locally and Council services have been under immense pressure as a result of Covid. Despite these pressures, officers have been through a rigorous process and have identified efficiency savings that mitigate the anticipated legacy issues arising from Covid whilst still maintaining core services. The Transformation Strategy (and associated programme includes two significant projects, the aforementioned Bingham Leisure Hub and Crematorium).

4.4 Whilst the Council faces financial constraints, exacerbated by Covid, both the revenue and capital budgets delicately balance the need for efficiency and economy with the desire for growth; and the aim of encouraging economic development in the Borough, with the Council aiming to meet its corporate priorities.

5. Alternative options considered and reasons for rejection

There are other options in terms of increasing Council Tax by a lesser amount, but this would put severe pressure on already stretched Council resources (see Section 11 of Annex B). Given the projected deficit position in 2021/22 and 2022/23, a reduction in Council Tax would result in increased demand on resources needed to balance the budget. For example, comparing the difference from no increase to a £4.95 (£4.62 in 2021/22) increase in Council Tax, in 2025/26 the council tax income foregone is £1.170m and over the five-year period amounts to £3.389m.

6 Risk and Uncertainties

6.1 Section 8 of Annex B covers key risks that may impact upon the MTFS. There is a risk that the Council will not achieve Council Tax and Business Rates receipts as a result of Covid, in addition to risks surrounding the Fair Funding review, reform of the Business Rates system and consultation on the future of NHB all of which have been postponed for a further year. Upside risk is that Business Rates are not as significantly impacted and therefore the need for the use of the Organisation Stabilisation Reserve will diminish.

6.2 Expenditure pressures include the legacy of Covid and the continuing climate change and carbon reduction agenda. The Climate Change Action Reserve will assist in alleviating some of the pressure. All of these factors make longer term forecasting subject to even more uncertainty.

7 Implications

7.1 Financial Implications

These are detailed in the attached budget report (Annex B). The Council is required to set a balanced budget for the 2021/22 financial year and the proposals present a balanced budget. In the opinion of the S151 Officer, a positive assurance is given that the budget is balanced, robust and affordable (Annex A). The Capital Programme is achievable, realistic and resourced, with funds and reserves including the General Fund, adequate to address the risks within the budget.

7.2 **Legal Implications**

The report complies with the Local Government Finance Act 1972.

7.3 **Equalities Implications**

None

7.4 **Section 17 of the Crime and Disorder Act 1998 Implications**

None

8 Link to Corporate Priorities

Quality of Life	The budget resources the Council's Corporate Strategy to enable all corporate priorities to be met.
Efficient Services	
Sustainable Growth	
The Environment	

9. Recommendations

It is RECOMMENDED that Council:

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h) adopts the Pay Policy Statement at **Appendix 7**.

For more information contact:	Peter Linfield Executive Manager - Finance and Corporate Services 0115 914 8439 plinfield@rushcliffe.gov.uk
Background papers Available for Inspection:	Department for Communities and Local Government (DCLG) website, 2021/22 Financial settlement papers
List of Annexes and Appendices (if any):	**Annex A –** s25 Report of the Responsible Financial Officer **Annex B** – Budget Setting Report And Associated Financial Strategies 2021/22 – 2025/26 **Appendix 1** Special Expenses **Appendix 2** Revenue Budget Service Summary **Appendix 3** Transformation Strategy and Efficiency Plan 2021/22 – 2025/26 **Appendix 4** Capital Programme 2021/22 – 2025/26 (including appraisals) **Appendix 5** Capital and Investment Strategy 2021/22 to 2025/26 **Appendix 6** Use of Earmarked Reserves 2021/22 **Appendix 7** Pay Policy Statement 2021/22

Annex A

Commentary of the Responsible Financial Officer

REPORT UNDER SECTION 25 OF LOCAL GOVERNMENT ACT 2003
(To be read in conjunction with the Council Budget Report and Annex B)

Purpose

Section 25 of the Local Government Act 2003 requires that when considering the financial plans for the year ahead, the Council's Responsible Finance Officer reports to the Authority on the robustness of the budget and the adequacy of the reserves so that Members have authoritative advice available to them when making their budget and Council Tax decisions.

Background

Councils decide each year how much council tax they need to raise. The decision is based upon a budget that sets out estimates of what they plan to spend on each of their services.

The decision on the level of Council Tax is taken before the year begins and cannot be changed once set. It follows that an allowance for risks and uncertainties must be made by:-

- making prudent allowance in the budget for each of the services, and in addition;
- ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

Robustness of Estimates

I am content that the Council has followed a comprehensive and detailed budget process when preparing the budget for 2021/22 which complies with both statutory requirements and best practice principles.

This year's budget is unusual given the scale of risk as a result of the Covid pandemic. The Council has taken effective steps to deal with the financial pressures caused by challenging economic conditions linked to Covid and reductions in Council funding, particularly from central government. The Council's Transformation Strategy and Efficiency Statement are designed to meet the emerging financial challenges. The Transformation programme combined with effective financial management (resulting in previous budget savings) have ensured the Council has the capacity to use reserves, only if absolutely necessary. The use of reserves in support of on-going expenditure requirements remains a key policy decision which is discussed below.

With regards to Covid there are a number of risks and the budget is likely to change dependent on the trajectory of recovery from the impact of the pandemic. To this end it is important we undertake sensitivity analysis and understand the impact of changes to risks and our assumptions. We have assumed largely 20% and 10% reductions in income streams in 2021/22 and 2022/23 respectively, on the assumption that throughout 2021/22 the national and local economy recovers. The first quarter loss of income is mitigated by the government funding 75% of loss in sales, fees and charges income. Broadly speaking a 10% loss (or gain) in income is equivalent to £0.75m. A further consequence is the impact on the Council's leisure contract which, whilst the Council's leisure centres remain closed, costs the Council around £0.1m per month. This has impacted upon the Council's Transformation Strategy in essence delaying planned savings by 2 years of the re-negotiated contract. This is deemed a prudent estimate on how long it will take leisure services to return to a pre-covid level and will be dependent on public confidence and the success of the dispensation of vaccinations to the whole community.

One further risk concern employees costs – currently the budget assumes only a small pay rise for those on the lowest income (national living wage increases) and, in the main, no increase in 2021/22 and 2022/23 for most employees. Every 1% pay increase amounts to around £0.1m in cost.

The impact of Covid on Business Rates is unclear given the significant amount of Government intervention by Government in the form of various business support grants and rates relief as well as businesses appealing against their current valuation as a result of Covid. It is anticipated such reliefs will be extended in 2021/22. The position is exacerbated by the potential changes in national policy regarding the business rates system (a proposed review for local government already delayed by 2 years notwithstanding the potential of further changes linked to digital commerce). Locally there is a further complication for Rushcliffe with the impending closure of Radcliffe on Soar power station. For this reason, the Council has budgeted at a 'safety net' position whereby the Council is guaranteed a minimum income level by central government even if business rates fall below this. The safety net is set at £2.8m but a more positive outcome could see business rates increasing to above £4m.

As reported to Full Council in September, the Council has a number of mechanisms at its disposal to support the budget if the pandemic continues before resorting to reducing service provision, namely:

(a) identification of Transformation Programme efficiencies and the use of in-year underspends should they arise;

(b) use of the Organisation Stabilisation Reserve and New Homes Bonus Reserve (if necessary) and not applying the Voluntary Revenue Provision in relation to the Arena;

(c) A review of earmarked reserves and their use: where possible transfer those reserves not being applied, to the Organisation Stabilisation Reserve, as necessary, to improve resilience going forward in the event of further 'waves' of Covid ; and

(d) Ultimately use of its £2.6m General Fund Balance.

Given all of the challenges, the Authority has responded positively to the pressures that it faces in the medium term. This has been managed through the development of a Transformation Strategy, in conjunction with a series of Member budget workshops over the past few years. The Transformation Strategy and supporting Programme (detailed at **Annex B, Appendix 3**) identifies the Council's approach to meeting its saving requirement. Last year we projected a budget deficit of £0.735m for 2021/22 to 2022/23; as a result of Covid, the budget deficit is estimated to be in excess of £1.5m over the next 2 years. A combination of cost control and income generation (including fees and charges and Council Tax) ensures the Council is in a position to project a surplus from 2023/24 which should help replenish reserves with an overall manageable net deficit over the 5 years of £0.357m. Going forward we cannot be complacent, there are significant financial challenges that lie ahead as a result of the unprecedented pandemic and the likely economic scarring that will result. As a Council we will continue to grow the Borough, galvanising the borough's high streets, and playing an active role in significant economic development projects such as a potential Freeport and Development Corporation on the Radcliffe-on-Soar power station site.

In developing such plans, the Council has recognised that future funding and service provision is uncertain, and this is heightened by the impact of Covid.risks. Other specific financial risks remain hence the prudent assumptions surrounding the outcome of the anticipated reviews of both 75% business rates retention and the Fair Funding and awaiting the impact of the overarching Spending Review now expected in 2021. The MTFS aims to mitigate and manage such risks going forward. Additional challenges arise from likely expenditure pressures linked to addressing climate change and the Climate Change Action Plan which the Council is formulating (via Scrutiny and Cabinet).

Both the MTFS and the Transformation Strategy are iterative in their nature and will evolve over time to respond to, for example: changes in funding levels; the impact of the national economic climate and Covid; and developing corporate and service objectives.

Adequacy of Reserves

Reserves are held for two main purposes:

- a working balance to help cushion the impact of uneven cash flows and unexpected events or emergencies (General Fund balance); and

- to build up funds to meet known or predicted requirements (earmarked reserves).

Whilst there is no statutory guidance on reserves, the Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that each local authority should base its decisions on professional advice from its Responsible Finance Officer and its understanding of local circumstances.

Taking into account such considerations in October 2011 the Cabinet approved as part of its MTFS, the following guiding principle:

"General Fund Balance should not fall below £1.25m and overall revenue reserves should not fall below 20% of net revenue expenditure."

This remains a prudent position which I do not recommend changing at this time. Given the impact of Covid, such prudence is enabling the Council to navigate its way through what is a financial minefield. A General Fund Reserve of £2.6m and earmarked reserves of around £6m-£7m (excluding NHB) ensures this principle continues to be adhered to.

Clearly, we are in exceptional times having had to move from a position of relative certainty in a previous 4 year settlement to the more challenging environment of the last 3 years where we have been given 1 year settlements. Uncertainty going forward makes financial planning very challenging and we mitigate risk by taking a prudent approach in our assumptions. Whilst we know we no longer receive Central Government Revenue Support Grant (RSG), there is still a lack clarity on what will happen once the New Homes Bonus (NHB) scheme finishes although there is now consultation on a potential new scheme. Currently we have not budgeted for additional NHB but remain hopeful there will be a new scheme and, as a Borough committed to growth, we should benefit from such a scheme. We believe this funding is particularly important to not only reward the Council with regards to delivering housing growth but also to fund the cost of increased service provision as a result of growth. We will continue to make such representations to the Ministry of Housing, Communities and Local Government (MHCLG).

There still remains uncertainty in terms of Business Rates (and the 75% localisation of business rates) Given the volatile nature of the business rates tax base, the prospective closure of Ratcliffe-on-Soar power station (which accounts for around one tenth of the tax base), this is a risk that has to be managed. The Development Corporation and potential Freeport are big opportunities for economic development at this site and an earmarked reserve of £0.5m will ensure the Council supports the initial business case development and plays an active role as key decisions are taken for the benefit of the local community. The Council will look to continue to support local businesses, applying central government policy with regards to business rates relief, and business support grants albeit the long-term viability of the business rate system is in question. Furthermore, the Council is proposing not to increase car parking charges in 2021/22 to help ensure Rushcliffe has the environment for businesses to thrive and, as lockdown is eased, will continue to proactively support both businesses and the wider community.

Excluding NHB, the Council's reserves are due to rise moderately over the five years from £6.3m to £7.3m. It is important the Council retains its level of reserves given that there are heightened risks: the impact of Covid; the future funding of local government; and the challenges that addressing climate change brings. The Climate Change Action Fund exists to assist with the carbon reduction challenge (reducing from £1m to £0.8m with £0.2m committed to supporting the climate change benefits that should arise from the Development Corporation).

There is also the 'Fair Funding' review of local government finance (deferred by a further year until 2021 and every chance it may be delayed further until 2022) which will determine how, with what is a smaller cake, the funding allocation is divided within the sector. The amount of Council Tax raised will, to a large extent, be dependent on the realisation of our Local Plan housing targets and has been dampened by the impact of Covid. For 2021/22, tax base growth is estimated at 0.62% and thereafter 2%. The ultimate intention is to realise opportunities for growth in the Borough, in both the business and housing sectors, as the Council aims to deliver excellent value for money for the community. The Council continues to lever in external funding such as from the Local Enterprise Partnership and will need to understand and maximise opportunities that may arise in the post BREXIT era. **Annex B, Section 8** highlights key risks with regards to the MTFS.

As detailed at **Annex B, Section 6,** the MTFS which supports this budget is predicated upon use of reserves (particularly the New Homes Bonus Reserve) to support service expenditure and to deliver investment across the Borough. Whilst the New Homes Bonus scheme in its current form is due to end after 2022/23, the use of the remainder of the NHB reserve is profiled and committed to fund the council's Minimum Revenue Provision (MRP) commitment (**Section 3.7 of Annex B**) over the life of this MTFS and beyond.

The Council has an ambitious capital programme to deliver its corporate objectives and anticipates additional borrowing (of which, up to£7.5m will potentially need to be borrowed externally during the lifetime of the MTFS) particularly to be utilised in relation to the Bingham leisure hub and crematorium projects. In previous budget reports, I have commented upon £10m being committed to fund the Arena project. There is sufficient NHB reserve to fund the outstanding balance of £5m, from the original £10m commitment for the Arena and the additional interest and principal repayments in relation to the additional borrowing in this strategy.

Despite the anticipated impact of Covid, Rushcliffe maintains a relatively robust financial base and, as a result, even once such demands have been met, overall revenue reserves (excluding retained New Homes Bonus) are planned to remain at a stable level over the period of the MTFS. Undoubtedly capital demands both those identified now as well as future requirements beyond the life of the MTFS will put pressure on such balances in the future and going forward. 'Headroom' within the revenue budget will need to be created to fund the capital programme in the long term unless other capital funding streams are identified. Such issues will be considered as the MTFS perennially evolves. As such the MTFS represents a balanced approach to meeting the financial challenges that face the Authority.

Pensions Fund changes were reported last year and we await the outcome of the next triennial review in 2022/23. We continue to remain vigilant regarding this risk particularly given the potential impact of Covid.

The delivery of the Transformation Strategy is critical in ensuring the Council retains a stable MTFS. The Council's focus remains on 'growing the Borough' and ensuring it remains a great place to live. Examples in the Capital Programme include the proposed crematorium, the Bingham Leisure Hub and developing Rushcliffe Country Park. As the Council is committed to investments within the borough and 'borrowing for yield' effectively prohibits borrowing from the Public Works Loans Board ,the Council will no longer utilise the remainder of its Asset Investment Fund (£16.2m of £20m has been utilised). The Council still remains committed to a commercial approach and maximising value for money from the use of its assets for the benefit of all Rushcliffe residents. The governance and management of asset investments, both individually and collectively remains important and that the Council has a diversified and proportionate asset investment portfolio to mitigate against adverse risk. The Capital and Investment Strategy refers (**Annex B, Appendix 5, Table 13**). This identifies £1.5m in gross income being generated from commercial investments expected to rise to £2.3m by 2025/26. The key point is that the Council has a range of such income streams and is not overly reliant on one source of income. It manages such risks proportionately and sensibly with investment income accounting for around 23% of fees and charges income.

The Council is largely self-sufficient and no longer in receipt of RSG. New Government Grants provided in 2020/21 and 2021/22 to support the impact of Covid, facilitates the Council to maintain core services during the pandemic. The budget is financed from Council Tax, Business Rates and rents, fees and charges. The proposed budget demonstrates financial resilience, which CIPFA are increasingly focusing upon given the unprecedented financial challenges the local government sector faces, particularly at this time. I am not complacent regarding the Council's position. I remain confident in the ability of the Council to deliver its corporate priorities and that it will continue to be financially self-sustainable.

Previous achievements with regards to the Transformation Strategy provide reassurance that the budget requirement will be met in a sustainable manner.

In conclusion, therefore, it is my opinion that the budget proposed in this report, and the sundry strategies which support it, are properly developed and provide an appropriate approach for meeting the significant financial challenges and funding risks facing the Authority at this time.

Peter Linfield
Executive Manager – Deputy Chief Executive and Executive Manager - Finance and Corporate Services (and Section 151 Officer)
February 2021