

**REVENUE BUDGET, CAPITAL STRATEGY AND COUNCIL TAX 2021/22**

Committee: Full Council

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Author: Finance Manager

[V132]

**1 ISSUE**

1.1 This report sets out the Council's proposed revenue budget, capital strategy, and the required level of Council Tax in 2021/22. The report assesses the robustness of the budgets, the adequacy of reserves and up-dates the Council's Medium Term Financial Strategy (MTFS).

**2 RECOMMENDATIONS**

2.1 Full Council is asked to approve:

- The formal Council Tax Resolution which calculates the Council Tax requirement as set out in Appendix 1;
- The draft revenue budget for 2021/22 and MTFS for 2022/23 to 2024/25 as set out in Appendices 2(a) and 2(b);
- A Council Tax freeze in 2021/22;
- The Statement of Reserves as set out in Appendix 3;
- The 2021/22 Fees and Charges as set out in Appendix 4;
- The Capital Strategy and financing as set out in Appendix 5.

2.2 To approve the use of the remaining Council Tax Hardship Grant awarded by Government, but not totally allocated during 2020/21, in the manner detailed in paragraphs 11.7 to 11.10 of this report, this to benefit residents claiming Local Council Tax Reduction Support in 2021/22.

2.3 To authorise the Finance Manager, in consultation with the Chairman of the Finance and Assets Committee, to approve any Business Rate reliefs or other changes to Business Rates announced by Government in the national Budget on the 3<sup>rd</sup> March 2021, as detailed in paragraph 6.7.

**3 BACKGROUND / OPTIONS**

3.1 At the Full Council meeting on 20<sup>th</sup> February 2020, members approved a net budget for 2020/21 of £8,925,664 and a frozen Council Tax. The budget had a planned draw of £1,291,541 from the Surplus Savings Reserve. The Medium Term Financial Strategy at that time showed a balanced budget in 2021/22 (using further resources

from the Surplus Savings Reserve), but with then significant budget deficits in 2022/23 and 2023/24.

- 3.2 Since this time, Finance and Assets Committee on the 23<sup>rd</sup> July 2020, approved a further £100,000 draw from the Surplus Savings Reserve in 2020/21, this to fund the Council's Environment and Climate Change Strategy.
- 3.3 The outturn position for 2019/20 was reported to the Finance and Assets Committee on the 23<sup>rd</sup> July 2020. This showed that due to the proactive actions taken by management to reduce the Council's cost base prior to and during 2019/20, the Council underspent in 2019/20 by £1,690,450. This was transferred into the Surplus Savings Reserve.
- 3.4 Management has continued to reduce the Council's cost base during the current financial year. This work has led to further one-off and on-going savings being made; which both contribute to the projected outturn underspend for this financial year and also provide savings throughout the term of the MTFs. The current yearend forecast underspend for 2020/21 is £428,500, this too will be transferred to the Surplus Savings Reserve at yearend and has been reflected in the figures in this report.

#### 4 SPENDING ROUND 2020

- 4.1 Local Government was expecting a major change in the way it is funded by Government in 2021/22. At this time last year we were expecting a:
  - Spending Review, a major review by Government of all of its spending plans, determining the quantum of funding that will be made available to each Department for a number of years.
  - Local Government Funding Review, a review of the relative needs of all local authorities to determine how much of the funding allocated above, would be allocated to each individual authority.
  - Business Rates Retention Scheme revision, which would result in local authorities retaining 75% of Business Rates collected, rather than the current 50%; but at the same time some direct grants paid to councils by Government, such as Revenue Support Grant and Rural Services Delivery Grant were expected to be withdrawn.
- 4.2 This had already been postponed once, it had originally been planned for 2020/21, but on the 25<sup>th</sup> November 2020, Government confirmed that it would be postponed for a second time, announcing instead a further one year Spending Round to cover the 2021/22 financial year. In arriving at this decision Government had considered the impact of the Covid-19 pandemic on the Country and believed that in the short term, that its primary aim should be "to support councils in dealing with the immediate impacts of the pandemic, to promote recovery and renewal at local level". These would now take place in 2021, to be implemented for the 2022/23 financial year.
- 4.3 Instead Government announced it planned to implement a second one-year Spending Round, which would in some cases "roll forward" the current year's

settlement into 2021-22, this to provide certainty and stability into the local government sector.

## 5 LOCAL GOVERNMENT FINANCE SETTLEMENT

- 5.1 The Provisional Local Government Finance Settlement was announced on the 17<sup>th</sup> December 2020, with then the Final Settlement announced on the 4<sup>th</sup> February 2021, before being debated in parliament on the 10<sup>th</sup> February 2021.
- 5.2 The Settlement confirmed the extension to the previous year's funding settlement, rolling over the previous funding schemes either in cash terms or increased in line with Consumer Price Index inflation.
- 5.3 The Revenue Support Grant figure was one of those increased in line with the Consumer Price Index inflation, which has resulted in East Cambs getting a small increase in cash terms. In 2020/21 we received £11,764, which increases to £11,829 for 2021/22.
- 5.4 The Settlement made a further change in the awarding of New Homes Bonus grant. The scheme was extended by a further year, with amounts earned in year 11 of the scheme, between October 2019 and October 2020, attracting one year's worth of reward in 2021/22 only. Prior to 2020/21 awards had been for four years, and this continues for those awarded prior this year, but for 2020/21 and 2021/22 there is only one year of reward. What this therefore means is that we received four years of reward in 2020/21, but this reduces to three years in 2021/22 and one year in 2022/23. The current expectation is that the grant will be discontinued at this time, but, like all other funding sources in local government, this will be wrapped up within the Local Government Funding Review. There is a view that Government remain committed to incentivising housing growth, but the exact form of this is unclear and there appears to be a growing view that New Homes Bonus is not the answer and they would prefer something more "targeted".
- 5.5 That said, due to the continued high level of house building in the District in the past year, our New Homes Bonus grant for 2021/22 is forecast to be £540,959, although this is a decrease of £154,278 when compared to that received in 2020/21.
- 5.6 The Settlement includes details of other specific grants that are being rolled forward, including the Rural Services Delivery grant, an allocation to the most rural authorities, which amounts to £169,586 in 2020/21 (£161,606 was received in 2020/21); Housing Benefit administration grant of £150,090 (a reduction of £16,677 compared to 2020/21) and Council Tax administration grant £66,838 (this is the same as in 2020/21).
- 5.7 The Government also announced a number of new grants for 2021/22, two of which provide specific support to assist councils during the current Covid-19 pandemic. These are a general non-ring fenced grant of £380,516 and a grant specifically to compensate councils for the anticipated reduction in Council Tax as a consequence of more residents being on the Local Council Tax reduction scheme. This amounted to £82,754.

- 5.8 A further new grant for 2021/22 is the Lower Tier grant awarded to all lower tier authorities responsible for homelessness, planning, recycling and refuse collection, and leisure services; East Cambs were awarded £105,054 of this new grant.
- 5.9 The Settlement further identified the local authorities who will have Business Rates Pools during 2021/22, Cambridgeshire was amongst those councils (see paragraph 6.5).
- 5.10 The Settlement makes provision for shire districts to increase Council Tax by up to 2% or £5, whichever is the greater, in 2021/22 without the need for a referendum. To put a value on this, if we were to increase Council Tax by £5 in 2021/22 (this is the higher figure for us), this would generate additional income of £149,650 in that year.
- 5.11 The Business Rate Retention Scheme continues as previously operated, with the Baseline Funding Level left unchanged from 2020/21.
- 5.12 The Business Rate multipliers were also announced in the Settlement, with a decision being made to freeze these at 2020/21 levels. The small business non-domestic multiplier will therefore remain at 49.9 pence and the multiplier for larger businesses (rateable values greater than £51,000) will be 51.2 pence.

## 6 BUSINESS RATES

- 6.1 The NNDR 1 return for 2021/22 was produced by the end of January in line with statutory requirements. Figures from this have been included in the draft budget as presented.
- 6.2 While the Council benefits significantly from the growth in Business Rates since the last Base Reset in 2013, there is always a risk that appeals against Business Rates can be lodged and, if successful, can be backdated for several years. The Council therefore holds a provision for appeals in determining how much of the rates collected should be posted into the budget.
- 6.3 The MTFS assumed that the Collection Fund for Business Rates would be in balance as at 31<sup>st</sup> March 2021, however the completed NNDR1 shows that the Fund will in fact be in deficit at this point. Much of this deficit however relates to reliefs provided to retail, leisure and hospitality venues and nursery (children) establishments by the Government after the budget was set. The Government is covering these reliefs by providing Section 31 Grant to councils. This Section 31 grant, is technically 2020/21 income, but it is proposed that the Council carries forward this grant via the use of a reserve to match against this shortfall in 2021/22.
- 6.4 Even after the impact of the Section 31 Grant is taken into account, the Collection Fund is still forecast to be in deficit at the end of 2020/21 and this needs to be recovered in future years. Historically this would have needed to be funded in 2021/22, but do to Government dispensation to assist councils during these difficult times, on this occasion it is allowed to be recovered over the next three financial years. The impact of this is that this Council will need to meet a deficit of £221,395 in 2021/22.

6.5 East Cambridgeshire applied to be, and was accepted by Government, to be part of a continuing Cambridgeshire Business Rate Pool in 2021/22, alongside a number of other authorities in the County area:

- Cambridgeshire County Council
- Cambridgeshire Fire Authority
- Fenland District Council
- Peterborough City Council
- South Cambridgeshire District Council

(Cambridge City Council and Huntingdonshire District Council are not members of the Pool.)

A review of the scheme was undertaken in the Autumn of 2020, supported by Pixel Financial Management, when it was forecast that the Pool will continue to provide benefit to this authority in 2021/22, despite the potential impact of the Covid-19 pandemic on Business Rates receipts.

6.6 As highlighted elsewhere in this report, forecasts for retained Business Rates beyond 2021/22 are almost impossible at this time, but the figures presented take a prudent view, showing a reduction on those expected in 2021/22. These have also been informed by our external adviser Pixel Financial Management.

6.7 The Government have not yet announced any potential Business Rate reliefs or other changes to Business Rates for 2021/22, these are now expected to be announced in the national Budget on the 3<sup>rd</sup> March 2021. It is recommended that the Finance Manager, in conjunction with the Chair of Finance and Assets Committee, be given delegated responsibility to approve and implement any changes announced as long as these are covered by Government by Section 31 Grant, and so there will be no impact on the overall financial position of the Council. This will allow these to be input in a timely manner thus allowing and reliefs to be reflected on Business Rate bills before these become payable.

## 7 THE 2021/22 BUDGET

7.1 Due to the proactive actions taken by management to reduce costs and generate new sources of funding in recent years, the revenue budget for 2021/22 is fully funded; there is a small budget gap in 2022/23 and then significant budget deficits in 2023/24 and subsequent years which need to be addressed.

7.2 The draft budget for 2021/22 is set out in Appendix 2 to this report.

7.3 The following key assumptions have been made in preparing the draft budget:

- No inflation has been added to staff pay in line with the Government announcement to freeze public sector pay in 2021/22 (it should be noted that Government hasn't actually got the power to do this, it is decided by the National Joint Council, but in previous years when a freeze has been announced, they have followed this guidance);
- Inflation on other expenditure has only been included where there is a contractual inflationary increase for example utilities and insurance. 2% has

been added to the Waste contract with East Cambs Street Scene (ECSS). Other budgets have not been increased by inflation;

- The additional market premium being paid to Amey for the use of the Material Recycling Facility (MRF) has now been moved to ECSS to manage on the Council's behalf;
- Pension Fund revaluations take place every three years, with the last one being on the 31<sup>st</sup> March 2019, no change in rate will therefore be implemented in 2021/22 with the Council's contribution rate remaining at 17.2%, with in addition, the lump sum contribution remaining at £485,000 each year;
- The Housing Benefit budget reflects the latest information from Anglia Revenues Partnership (ARP) this reflects the position at 31<sup>st</sup> December 2020;
- Budgeted income from the commuter car park and the Leisure Centre management fee have both been reduced to reflect the implications of the Covid-19 pandemic on these services;
- The Leisure Centre budget remains in line with the original funding strategy; that it should be revenue cost neutral. The Minimum Revenue Provision (MRP) costs associated with the Leisure Centre project are being fully met in 2021/22 from the management fee to be paid to the Council by the operator. Additional management fee received over that needed to cover the debt and running costs of the Leisure Centre will be put into a "sinking fund" to ensure that money is available for future maintenance and major repairs at the Centre.
- The Council will receive interest receipts from the new loans to East Cambs Trading Company (ECTC), these at an agreed rate of 3.5%;
- The £100,000 built into the 2020/21 budget for the Council's Climate Change Plan has been continued in 2021/22 and future years.

## 8 RESERVES

- 8.1 The Council holds reserves, at levels which remain prudent. It is important to review the level of reserves on a regular basis, in particular to ensure that potential liabilities not in the Council's base budget can be funded from earmarked reserves; and that unearmarked reserves are at a sufficient level to cover any unforeseen events.
- 8.2 As part of the process of preparing this budget, officers have reviewed each reserve to ensure its purpose and level is appropriate. A Statement of Reserves is attached at Appendix 3.
- 8.3 The sole unearmarked reserve is the General Fund. This stands at £1,045,629. There is no statutory minimum level set for a local authority's reserves; it is a matter for each local authority's own judgement after taking into consideration the strategic, operational and financial risks it faces. It has been this authority's policy for some time that the level of the unearmarked reserve be set at 10% of the net operating budget, this is a reasonably prudent approach and a higher percentage than many other authorities locally. The proposed net operating budget for 2021/22 is £10,538,947. Using the 10% figure, this would therefore require an unearmarked reserve of £1,053,895. An additional £8,266 will therefore be put into the General Fund, this being a transfer from the Change Management Reserve, rather than a draw from Council Tax.

## 9 FEES AND CHARGES

- 9.1 Officers have reviewed the fees and charges, and details of the proposed charges for 2021/22 are shown at Appendix 4. The proposed budgets include increases as a result of both volume and price.
- 9.2 There have been no new fees or charges introduced for 2021/22.
- 9.3 Where we have control over the fee level, as opposed to where these are negotiated nationally, it is proposed to increase fees and charges by approximately 2%. This approach ensures that the additional cost of providing the service is met by the person / organisation benefiting from the service, rather than the general populous through Council Tax.
- 9.4 As external funding from Government grants continues to reduce, the Council's approach to fees and charges will need to reflect the increasing importance of this as an income source.

## 10 CAPITAL STRATEGY

- 10.1 The CIPFA revised 2017 Prudential and Treasury Management Codes required from 2019/20 all local authorities to prepare a capital strategy report, which provides:
- a high level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
  - an overview of how the associated risk is managed;
  - the implications for future financial sustainability.
- 10.2 This Council has no long term capital objectives at this time. The medium term capital programme has been reviewed, and is attached at Appendix 5. The programme is largely a continuation of the previous programme. The total value of the programme in 2021/22 is £3,827,249.
- 10.3 The Council's Treasury Management Strategy is a separate document, which is also on today's Full Council agenda for approval.
- 10.4 With the Council's Waste Service now being provided by East Cambs Street Scene (ECSS), the Council is purchasing waste fleet and hiring this to the Company. The hire charge reflecting the Council's capital costs of doing this, both the MRP and interest costs. Spend in 2021/22 is forecast at £2 million as vehicles previously purchased by the use of the Weekly Collection Grant from Government, reach the end of their useful life and require replacing. It had previously been planned to change these vehicles in 2020/21, but with the Government due to announce its Waste Strategy in Spring 2021, it has been deemed more sensible to wait to ensure that the vehicles purchased meet the new needs prescribed in this strategy. It is also hoped that Government funding may become available at the same time. While these additional costs will be reflected in the charge to ECSS, the Council will need to increase the contract value it pays the Company for providing the service as detailed in paragraph 13.4 to ensure that it can meet these additional costs.

- 10.5 The project to refurbish the depot has been deferred into 2021/22, while further feasibility work takes place and costings of the project reviewed. At this time the budget originally put in for 2018/19 remains in place, but potentially this will need to be adjusted as new information comes to hand.
- 10.6 Two new capital provisions have been built into the 2021/22 programme, these are both for £40,000. The first relates to the purchase of new wheeled bins; as further residential properties are built within the District, these need to be supplied with bins, so the Council needs to have these available. The cost of these will be covered by a combination of Section 106 funding and capital receipts.
- 10.7 The other new provision is for the Council's contribution to the A14 up-grade. When the scheme was originally designed, and funding agreed, it was agreed that all councils within Cambridgeshire would contribute to the costs of the project, this contribution is expected to start in 2021/22 and will be funded from CIL contributions.
- 10.8 The other two areas of capital spend in the capital programme are the on-going provision of Disabled Facilities, both mandatory and discretionary. The Council receives Government funding (from the Better Care Fund), via the County Council to assist with the funding of this work. The total budget in 2021/22 is £772,299, with £526,577 being funded by grant, with the remainder (£245,722) being funded by the Council by the use of previously obtained capital receipts. And vehicle replacement funding for the Parks and Gardens team, these vehicles are purchased by the Council using Section 106 funding, and then hired to ECTC at a commercial rate.
- 10.9 As agreed in the 2017/18 budget, the Council now funds expenditure that would have previously be funded from external borrowing, on schemes such as the Leisure Centre, Waste fleet and the loan to the ECTC, from internal borrowing. As interest chargeable on external borrowing is higher than interest receipts on investments, this provides a net saving to the Council. The current expectation is that all borrowing in 2021/22 will be funded from internal borrowing, thus preventing any external borrowing costs. More details of the Council's borrowing requirement and investment strategy are detailed in the Treasury Management Strategy (also on the agenda for this meeting).
- 10.10 The original loan arrangements with ECTC were that the loans must be repaid within five years (by March 2021) and it was agreed with our External Auditors that the Council would not need to make any annual revenue provision to repay these loans in the short-term, but simply use the Company's repayment to repay the Council's borrowing. These loans will be repaid on 31<sup>st</sup> March 2021 in line with this agreement.
- 10.11 Council has agreed to offer ECTC two new loan facility from the 31<sup>st</sup> March 2021, these up to a cumulative value of £4,900,000 and at an interest rate of 3.5%. As with the previous loans, Council officers will monitor the Company's finances to ensure that these remain robust and that the Company will have finance available in 2023 to repay these loans. As long as this remains the case, in line with the agreement for the original loans, the Council will not be required to set aside annual revenue provisions, however if at any point it is felt that the loan repayment could be in doubt, the Council will be expected to make provision for any expected shortfall in the year that this became known.

10.12 In summary therefore, the Council has limited exposure to the on-going costs of capital expenditure at this time. The costs of the Leisure Centre are being met by the operator through the management fee; the loans to ECTC will be repaid in full in 2023 and in the intervening period a commercial interest rate is being charged, and the costs of the Waste fleet and some of the costs of the depot enhancements will be passed onto ECSS, although the Council's revenue budget has been increased to reflect the replacement of the vehicles reaching the end of their useful life in 2021/22.

## 11 COUNCIL TAX

- 11.1 The MTFS assumed that the Collection Fund for Council Tax would be in balance as at 31<sup>st</sup> March 2021. However, due mainly to the increased number of houses built in the District during 2019/20, which resulted in the Fund being significantly in surplus as at 31<sup>st</sup> March 2020, the Fund is forecast to be in surplus as at 31<sup>st</sup> March 2021. It should be noted that the surplus on the Fund is forecast to reduce during the 2020/21 financial year, mostly as a consequence of the pandemic, but the net position is expected to remain positive. Similar to Business Rates (as previously discussed) new rules for the 2020/21 surplus / deficit agreed by Government to assist councils recover from the pandemic, allow this to be built into the budget over three years, rather than only the one in previous years. The result of this is that this Council will benefit by £30,387 from the forecast surplus on the Fund at the end of 2020/21 in the 2021/22 financial year.
- 11.2 The taxbase for 2021/22 estimated in last year's budget was an equivalent of 30,550.6 Band D properties. However, the real change in housing between October 2019 and October 2020 and an estimation of future movements in 2021/22 means that the current forecast for 2021/22 is 29,930.0 Band D properties. This is lower than the current year, mainly as a consequence of the Covid-19 pandemic, which is forecast to lead to higher unemployment, which in-turn, will result in more residents claiming Local Council Tax Reduction Support. Residents who claim this benefit, can pay a minimum of 8.5% of their Council Tax bill. These reductions in income to be collected are reflected within the taxbase figure resulting in the reduced forecast.
- 11.3 It is proposed that the Council freezes its Council Tax for a Band D property at the current level of £142.14 in 2021/22, based on the Council Tax requirement of £4,254,250 divided by the taxbase of 29,930.0 properties. This decision is made as Council doesn't want to put further pressure of the finances of its residents in these unprecedented times.
- 11.4 The County Council, Fire and Police Authority budgets and precepts were considered by their respective decision making bodies in early February and we were notified of their precept requirements.
- 11.5 It should be noted that the County Council's precept comes in two parts, a general precept and an adult social care precept, this following the Secretary of State's offer to all adult social care authorities (those with functions under Part 1 of the Care Act 2014). The offer was the option of an adult social care authority being able to charge an additional "precept" on its council tax without holding a referendum, to assist the authority in meeting its expenditure on adult social care. This arrangement has been in place since the financial year 2016-17.

- 11.6 All parish precepts have also been notified to the Council. These are reflected, along with the precepts set out in paragraphs 11.3 and 11.4, in the formal Council Tax Resolution as detailed as Appendix 1.
- 11.7 Members will be aware that early in the 2020/21 financial year Government gave the Council £429,851 of Hardship Grant, to provide additional support to Working Age residents claiming Local Council Tax Reduction Support. The scheme was to cover Working Age residents who claimed the benefit during the year and was to give them up to an additional £150 off their Council Tax bill. At the time, the Council applied the additional reduction to all current Working Age claimants, and in accordance with Government policy held the remainder in reserve for expected future claimants during the year. This has been applied as future claimants emerged, but is not forecast to result in all the whole held-back funding being allocated in year.
- 11.8 It is therefore proposed to carry the unallocated funding forward and use in 2021/22. While the original intention was the money should be used in 2020/21, Government has confirmed that using any unallocated balance in 2021/22 is allowed, on condition that the original policy aims are delivered. The Council's proposal is therefore to use this funding to reduce the Council Tax demand for all Working Age Local Council Tax Reduction Support claimants on the billing day for Council Tax for 2021/22, by a further £13. To be clear this is a one off exercise, with only qualifying residents in receipt of the benefit on this date being eligible, this to protect the Council and ensure that the amount allocated remains within the funding provided by Government.
- 11.9 It is then proposed any remaining balance is put into an exceptional hardship pot for 2021/22 aimed at assisting the same cohort of residents as have been helped in 2020/21.
- 11.10 Members are asked to approve the approach to using the unallocated funding from Government as detailed above.

## 12 RISK AND SENSITIVITY ANALYSIS

- 12.1 The Local Government Act 2003 places two specific requirements on an authority's Section 151 Officer in determining the Council's budget and Council Tax. Under Section 25, the Section 151 Officer must advise on the **robustness of the estimates** included in the budget. The advice given to the Council on this issue is that the estimates have been produced on a prudent basis, with a strong emphasis on ensuring all cost pressures are included. Budget estimates have been developed with senior officers, with regular updates and discussions with members of Management Team.
- 12.2 The key risks are around funding of the Council. The Settlement provides clarity around grant funding for 2021/22, but looking beyond that, there is very limited information to put forward a MTFS based on confident assumptions on future Government funding. The risks from 2022/23 are significant; there is limited information on likely sources of funding and indeed the value of any funding to be received.

- 12.3 The Government has announced that it intends for local authorities to retain 75% of all business rates generated in 2022/23 - but there will continue to be the need to share resources across the Country - and there will also be additional new burdens placed on local authorities, which are unclear at this time.
- 12.4 Possibly the greatest concern for this Council however, is that reports suggest that Government intend to implement a full Business Rate baseline reset in 2022/23. The current baseline was set in 2013, when all councils were given a share of Business Rates equal to their calculated needs. Since then councils have been allowed to keep a share of their growth, which for us as a district council has been 40%. In broad figures our baseline is £2.6 million, where we actually budget for £3.7 million of Business Rates because of this growth. If the baseline is fully reset, we will lose all of this growth and won't know what our revised baseline will be until the results of the Local Government Funding Review (as detailed in 4.1) are announced. An allowance has been made in the MTFS for this probable reduction, but at this point, there is no certainty on what this is likely to be.
- 12.5 To mitigate the above risk, the Section 151 Officer will continue to report on a frequent basis to Management Team and members as new information becomes available.
- 12.6 The Section 151 Officer is also required to report on the **adequacy of reserves**. The projected level of reserves, specifically the General Fund Reserve and Surplus Savings Reserve, and their use in 2021/22 are **prudent** and show how these will sustain the functions of the Council in that year.
- 12.7 However, the budget for 2022/23 assumes the remainder of the Surplus Savings Reserve is utilised, which will reduce the overall level of reserves significantly. Reserves can only be utilised once and while the purpose of the Surplus Savings Reserve is to provide one-off funding to balance the budget in future years, the Council needs to be considering all options to reduce the speed that this is being utilised so that it remains available further into the future. The Council has a track record of delivering additional savings and generating extra income in advance of the budget requirement, so work done during 2020/21 and 2021/22 will hopefully lead to a reduced draw from the Surplus Savings Reserve in these and future years through the MTFS period.
- 12.8 Another key risk for the Council is its loan to ECTC. Should ECTC encounter any financial difficulties and be unable to repay the £4,900,000 loan made available to it, then the Council will need to account for this within its financial statements. In such an event, the Council would need to draw on its reserves to meet such a liability. At this point however, it should be noted there is no indication that this is likely to be the case.

### 13 MEDIUM TERM FINANCIAL STRATEGY

- 13.1 The Council's Medium Term Financial Strategy is to set a robust financial framework for the Council's plans over the next four years which support the delivery of the Council's priorities within a context of an annual balanced budget. Specifically, the MTFS:

- Looks to the longer term to help plan sustainable services within an uncertain external economic and funding environment;
- Maximises the Council's financial resilience and manage risk and volatility, including managing adequate reserves;
- Helps ensure that the Council's financial resources are directed to support delivery of the Council's priorities over the medium term.

13.2 The MTFS covers the period 2021/22 to 2024/25. As highlighted earlier the Spending Round announced by Government for 2021/22 provides assurance about the grant position for that year and these figures can therefore be considered robust.

13.3 However, it is extremely difficult to develop a robust MTFS to cover the period 2022/23 and beyond while the uncertainties around future funding levels remain. As detailed earlier in this report, the Government is currently undertaking a number of pieces of work which will impact on local government funding moving forward. The Spending Review, will determine the quantum of funding available to local government, while the Local Government Funding Review will determine how much of this funding is allocated to individual authorities. Then further Government intend to change the Business Rate retention scheme in 2022/23 to allow local government to retain 75% of the amount collected, rather than the current 50%. These issues create considerable uncertainty for local authority funding; and is an issue which will require monitoring; this so, the Council can adjust its MTFS as new information becomes available. Up-dates will be provided to the Finance and Assets Committee as further information becomes available.

13.4 The assumptions used in the MTFS include:

- Government funding through Revenue Support Grant and Rural Services Grant end in 2021/22;
- New Homes Bonus (NHB) remains part of the overall funding package from Government for the next two years, before being removed. However, while remaining in the funding package, the benefit of NHB reduces considerably over this period, before being stopped completely in 2023/24 (see paragraph 5.4);
- Inflation on staff pay is included at 2% in all future years
- 2% inflation is added to the Waste contract on an annual basis, however additional budget is provided from 2022/23 when the new recycling vehicles (purchased in 2021/22) will start being charged to ECSS. (This cost increase would have occurred regardless of whom is undertaking the contract at this point);
- The new loans to ECTC are planned to be repaid in 2023, the interest received by the Council on these loans will therefore stop at this point. The loan repayments will be used to reduce / prevent the Council needing to borrow externally, therefore reducing costs, albeit not to the magnitude that income will be lost;
- The Council has a track record of delivering cost reductions; it is anticipated therefore that a contribution to the budget deficit forecast in future years will be achieved during the term through general efficiencies and income generating opportunities; however, to be prudent, no account of these are shown within the forecasts within this report.

- Further, while ECTC is anticipated to start making profits in the period of the MTFS, it remains unclear how much of this will need to be retained by the Company as working capital, so at this point, no account of this income being paid to the Council as a dividend is assumed in the budget. (While noting that no dividends are budgeted for, it should not be forgotten that the Council continues to get significant benefits from ECTC, with interest being paid on the loans provided at a rate far higher than available from its investments, the recharge of management and support services costs to the Company (forecast to be £85,835 in 2021/22), the hire of the Market Place and part of the depot, as well as Capital Receipts, Section 106 contributions and eventually additional Council Tax receipts from the properties developed.)

13.5 The impact of the above assumptions is attached at Appendix 2. This shows the budget for 2021/22 is fully funded. However, there is a relatively small gap in 2022/23 with then significant budget shortfalls projected in 2023/24 and subsequent years. Clearly many things will change between now and then, so members should not focus on the precise numbers. What is far more important is that members appreciate the direction of funding facing this and many local authorities, and the likely scale. It will be necessary to develop a plan to meet these shortfalls, although the Council does have time (although limited) to put the necessary plans in place. The Council also has access to a reasonable level of reserves, as described in section 8 of this report.

13.6 While noting the uncertainty that is highlighted in this report about the 2022/23 financial year, it is considered unlikely that the quantum of funding from Government will increase and as such, this Council will need to identify measures to bridge the budget gap. A comparison between this year's MTFS and the past two last years does highlight an increasing need to identify savings in the medium term, to ensure that the Council's budget can be balanced in future years.

2019/20 Budget	
2019/20 – budget year	Balanced
2020/21 – MTFS year 1	Balanced
2021/22 – MTFS year 2	Savings to find £3,181,842
2022/23 – MTFS year 3	Savings to find £4,044,479
2020/21 Budget	
2020/21 – budget year	Balanced
2021/22 – MTFS year 1	Balanced
2022/23 – MTFS year 2	Savings to find £3,266,854
2023/24 – MTFS year 3	Savings to find £4,391,777
2021/22 Budget	
2021/22 – budget year	Balanced
2022/23 – MTFS year 1	Savings to find £53,094
2023/24 – MTFS year 2	Savings to find £4,634,128
2024/25 – MTFS year 3	Savings to find £4,610,717

13.7 Options to resolve the budget shortfalls in future years come from:

- Efficiencies in the cost of service delivery
- Reductions in service levels

- Increased Council Tax
- Increased income from fees and charges
- Increased commercialisation via its trading companies

13.8 While noting the Council's favourable position of having a balanced budget (by use of the Surplus Savings Reserve) for 2021/22, it is strongly recommended that early consideration is made to how savings in future years will be achieved. All the bullets above need to be considered, with a quickening of the pace of commercialisation and the review of all income generating opportunities, as these are potentially the areas that could generate the highest returns, while having least impact on the services provided by the Council. However, within the MTFs period, all options will need to be considered and potentially implemented.

13.9 Any savings achieved in 2020/21 and 2021/22 resulting in potential underspends in those years, will provide further funding in the Surplus Savings Reserve to assist in the balancing of future years.

#### 14 ARGUMENTS / CONCLUSIONS

14.1 The proactive actions already taken have led to a balanced budget for 2021/22 (based on known information and the use of the Surplus Savings Reserve). The budget for 2021/22 therefore has minimal risks attached to it, although the Medium Term Financial Strategy and the new funding regime expected to come into place from 2022/23 do contain significant uncertainty and therefore risk. While there is little this Council can do to remove this uncertainty at this point, it does need to look now for opportunities within its own control, which will bridge some part of the funding gap currently forecast.

#### 15 FINANCIAL IMPLICATIONS / EQUALITY AND CARBON IMPACT ASSESSMENTS

15.1 The proposed net operating budget of £10,538,947 will be financed by Revenue Support Grant, retained Business Rates, Council Tax and a contribution from the Surplus Savings Reserve.

15.2 An Equality Impact Assessment is not considered necessary, as no services are being cut in 2021/22 and Council Tax will not be increased.

15.3 A Carbon Impact Assessment (CIA) is also not considered necessary, as there will be no changes to service provision in 2021/22.

#### 16 APPENDICES

- Appendix 1 – Formal Council Tax Resolution
- Appendix 2 - Draft Budget 2021/22 and MTFs
- Appendix 3 - Statement of Reserves
- Appendix 4 - Schedule of Fees and Charges
- Appendix 5 - Capital Programme

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#### Background Documents

#### Location

Room 104  
The Grange  
Ely

#### Contact Officer

Ian Smith  
Finance Manager  
(01353) 616470  
E-mail: [ian.smith@eastcambbs.gov.uk](mailto:ian.smith@eastcambbs.gov.uk)