

CABINET

Agenda Item:

12a

Ward: All

Portfolio: Enterprise and Finance

FROM: Cllr Barry O’Leary –
Portfolio Holder for
Enterprise and Finance

Date: 1 February 2021

SUBJECT: **Medium Term Financial Plan 2021-22 to 2023-24 and
detailed Revenue Budget for 2021-22**

	Seen by:	Name	Date
Report Sign off	Chief Executive/ Deputy Chief Executive(s)	Stuart Brown	18/01/2021
	Legal	Lesley Dolan	15/01/2021
	Finance	Richard Bates	14/01/2021
	Group Manager	Richard Bates	14/01/2021
	Portfolio Holder	Cllr O’Leary	15/01/2021
	Ward Member(s)	All	N/A
Summary:	The purpose of this report is to set out the Medium-Term Financial Plan for 2021-22 to 2023-24 and to make recommendations on the level of the Council’s Revenue Budgets, the Band D Council Tax and Special Expenses Rate for 2021-22.		
Recommendation:	Full Council are recommended to agree: 1. <u>REVENUE BUDGET PROPOSAL</u> (i) The overall Net Revenue Budget for 2021-22 of £16,363,371 after taking into consideration all the supporting documentation within the following appendices: <ul style="list-style-type: none">• Appendix A – Revenue Control Totals by Service• Appendix B – Revenue Control Totals by Subjective• Appendix C – Fees and Charges• Appendix D – Summary of Reserves and Balances• Appendix E – Special Expenses Rate		

	<p>2. <u>COUNCIL TAX SETTING</u></p> <p>(i) A Council Tax Requirement of £6,887,280, calculated using a Council Tax of £166.61 for a Band D property, an increase of £5 or 3.1% from 2020-21 (excluding the Special Expenses Rate) and a Tax Base of 41,337.76, in accordance with the Local Authorities (Calculation of Tax Base) Regulation 1992, as amended, after the relevant adjustments in respect of the Council tax support scheme approved by Cabinet on 6 January 2020.</p> <p>(ii) The continuation of the additional Council Tax Precept equivalent to 1.25% of Mendip’s 2015/16 Council Tax Charge for the Shadow Somerset Rivers Authority only. This equates to a Band D value of £1.84 resulting in a Council Tax Requirement of £76,061 for 2021-22.</p> <p>3. <u>SPECIAL EXPENSES RATE</u></p> <p>(i) A Special Expenses Rate of £204,300 capping the rate to £12.50 as in previous years.</p>
<p>Direct and/or indirect impact on service delivery to our customers and communities:</p>	<p>The Medium-Term Financial Strategy is the vehicle by which the Council identifies resources to deliver the Corporate Plan. It covers both revenue resources and resources for capital investment and takes into account and influences:</p> <ul style="list-style-type: none"> • Capital Strategy • Treasury Management Strategy • Performance Management • Value for Money Policy • Strategic Asset Management Plan • Workforce Strategy • Housing Strategy • Service Planning • Prudential Code • Corporate Risk
<p>Contribution to Corporate Priorities:</p>	<p>This paper directly links to the Corporate Aim:</p> <p>To build a fairer, greener and more vibrant Mendip that values our distinctive towns and rural communities.</p> <p>On a short-term basis, the Corporate priorities have been amended to savings lives, maintaining statutory services and economic recovery. The medium term priorities are however unchanged.</p>
<p>Legal Implications:</p>	<p>The Council has a duty to allocate public funds appropriately, and to set a Council Tax Requirement and Precept Requirement. There are no direct legal implications arising from this report unless the Council fails to set a Balanced Budget.</p>

Financial Implications:	The 2021-22 Financial Plan outlines the detailed budget and the 2021/22 – 2023-24 Medium Term Financial Strategy including the options for a sustainable three-year strategy. The detailed financial implications are dealt with within the body of this report.
Climate Change Risks and Opportunities:	No immediate climate change implications arising from this report
Impact on Service Plans:	This paper directly links to the Service Plans as it provides the revenue expenditure requirements for each service.
Crime and Disorder Implications:	No implications arising from this report
Equalities Implications:	<p>Where appropriate, budget movements been subject to an impact assessment, covering key areas such as Equalities, Community Safety, Sustainability, Health and Safety, Business Risk and Privacy. This is done with a view to identifying possible actions to mitigate negative impacts.</p> <p>However, many of the proposals do not have a direct impact on the public and therefore do not require an Impact Assessment.</p>
Risk Assessment and Adverse Impact on Corporate Actions:	<p>The Council has recognised there are potential risks arising as a result of unforeseen circumstances and has produced a budget for 2021-22 that both maintains general balances above the minimum level specified by the S151 Officer and provides an in-year Revenue Contingency Budget.</p> <p>The analysis of key risks is set out in the Section 25 report of the Section 151 Officer.</p>

Mendip District Council

2021-22 to 2023-24 Medium Term Financial Strategy and 2021-22 Detailed Financial Plan

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5. Appendix E – Special Expenses Rate
6. Appendix F – Section 25 Report of Section 151 Officer

Author: Richard Bates – Interim Section 151 Officer
Effective Date: 01 February 2021
Date due for review: February 2022

Introduction

1. This paper seeks formal Member approval for the Revenue Budget for the financial year 2021-22 and provides projections to give an indicative financial picture of the future financial years spanning 2022-23 to 2023-24. New proposals commencing in 2022-23 and later years will be confirmed as part of future MTRS processes.
2. This document contains background information to set out the context for the recommendations and includes a number of appendices covering:
 - **Appendix A – Revenue Control Totals by Service;**
 - **Appendix B – Revenue Control Totals by Subjective;**
 - **Appendix C – Fees and Charges for 2021-22**
 - **Appendix D – Summary of Reserves and Balances**
 - **Appendix E – Special Expenses Rate**
 - **Appendix F – Section 25 Report of the Section 151 Officer**

Background

3. The Council must meet its statutory obligations to:
 - Determine a balanced Revenue Budget;
 - Set a Council Tax Requirement;
 - Approve a Capital Strategy and Service Capital Investment Programme and the associated Prudential Code Indicators; and
 - Approve the Statement of Minimum Revenue Provision.
4. The Council's Medium-Term Financial Strategy (MTFS) sets out the process for dealing with these obligations over a three-year period. A detailed Financial Plan is included for the financial year 2021-22, while summary indicative information is provided for the financial years 2022-23 and 2023-24.
5. The strategy is based upon the Corporate Aim:

To build a fairer, greener and more vibrant Mendip that values our distinctive towns and rural communities.

It outlines the Corporate Priorities, Principles and the Organisational Values based on the key challenges or opportunities the District faces within the overall context of the Council's allocation of resources to the services it provides and commissions. On a short-term basis, the Corporate priorities have been amended to savings lives, maintaining statutory services and economic recovery. The medium term priorities are however unchanged.

6. The Capital Strategy and Capital Investment Programme form their own documents that sit alongside this overarching strategy, including the associated Prudential Code Indications. The financial implications are included within the Revenue Budget.
7. Similarly, the Treasury Management Strategy which included the Minimum Revenue Provision statement also sits alongside this overarching strategy. The financial implications are included within the Revenue Budget.

Strategy Aims and Measurements

8. This MTFS aims to:
 - a) **Maintain a robust, and sustainable, rolling three-year Medium Term Financial Strategy that:**
 - Identifies service delivery trends, changes in legislation etc. that will have a service and financial impact;
 - Accurately predict levels of spend in the future;
 - Ensure that financial resources are aligned with our priority aims and objectives
 - Identifies whole life costs of capital projects and ensures all projects are adequately funded and resourced;
 - Applies a culture of budget ownership across all services, adopting a corporate approach to delivering a balanced budget;
 - Maintains or improves income collection rates and minimises the amount of debt written off;
 - b) **Increase Value for Money through**
 - Identifying efficiency savings to fund new investment or enhanced services.
 - Maximises income opportunities primarily through structured growth of the area.
 - Developing partnerships where they can offer a better way forward.
 - c) **Ensure the level of reserves remains appropriate.**
9. Progress will be measured by:
 - d) **Retaining a revenue working balance of at least £1.5m (approximately 10% of net revenue budget) at the end of each financial year;**
The purpose and adequacy of specific reserves and provisions will be reviewed on an annual basis;
 - e) **Ensuring our reliance upon net commercial investment income is managed and does not exceed 25% of the overall net revenue budget (approximately £4m).**
 - f) **Delivering the planned net growth in the Council Tax base, and net Business Rates Payable and strive to achieve income collection targets of:**
 - Council tax 97.5%

- Business Rates **98.5%** {awaiting NDR1 information. Reduced from 99% for now}

g) Applying the following Treasury Management principles and targets:

- Maintain overall investment and borrowing within the limits as prescribed within our approved Treasury Management Strategy;
 - Achieve an average return on new Treasury investments in the 2021-22 year of 0.1%.
10. The Council has produced a financial model which delivers the Council's priorities whilst addressing the significant financial challenges being experienced as a result of the Government's austerity measures and the resulting cuts in funding.
11. In addition to bridging the revenue budget gap, Officers and Members have also considered the Service's Capital Investment needs and Commercial and Regeneration Investment capital requirements. These have again been identified alongside available resources. The resulting programme, combined with the consequences of prior year decisions, is used to estimate actual capital expenditure in each year and calculate the direct consequences for the Revenue Budget and Prudential Code Indicators. This is covered in more detail within the separate **Capital Strategy** and **Treasury Management Strategy** documents.

Revenue Budget 2021-22

12. The Government's austerity programme has significantly reduced the levels of funding in Local Government over a 10-year period, such that the Council no longer receives any Revenue Support Grant (RSG), down from over £3.8m in 2013/14.
13. Originally, there were plans for significant changes to Local Government Funding for 2021-22. These included implementation of the Fair Funding Review, Business Rates re-valuations and a reset of the Business Rates baseline.
14. Together, these were expected to have a very severe impact, particularly on district Councils such as Mendip, who have benefited from sharing in the growth in business rate income since the introduction of the business rates retention scheme. It was not known how the reset of the system would take place and whether any of the historic growth would be added into the existing baseline.
15. The impact of the COVID pandemic has pushed back all of the planned changes to 2022-23 at the earliest. This still leaves a potential significant reduction in funding at that point and the potential implications for 2022-23 and beyond are explored later in this report.

16. Some changes have been made in the Provisional Local Government Funding Settlement which was issued on the 17 December 2020. The details of this were set out in the MTFP update paper to Cabinet on 11 January 2021.
17. The confirmed levels funding for next year and indicative figures beyond that are set out in the table below.

MENDIP DISTRICT COUNCIL FUNDING

	2020-21	2021-22	2022-23	2023-24
	£	£	£	£
<u>Non-specific grant income</u>				
Revenue Support Grant	0	0	0	0
Rural Services Delivery Grant	-243,270	-255,288	-255,288	-255,288
New Homes Bonus	-1,765,100	-1,005,892	-592,320	0
Lower-Tier Services Grant	0	-397,732	0	0
Council Tax Support (LCTS) Grant	0	-156,438	0	0
Total - Non Ringfenced Grants	-2,008,370	-1,815,350	-847,608	-255,288
<u>Taxation</u>				
MDC Council Tax Precept	-6,622,520	-6,887,280	-7,127,170	-7,369,286
Special Expenses Rate	-204,300	-204,300	-204,300	-204,300
Parish Precepts	-4,436,650	-4,436,650	-4,436,650	-4,436,650
Precept Somerset Rivers Authority	-75,400	-76,061	-76,441	-76,824
	-	-	-	-
<i>Council Tax</i>	<i>11,338,870</i>	<i>11,604,291</i>	<i>11,844,561</i>	<i>12,087,059</i>
MDC Share of Business Rates	-4,583,960	-4,448,000	-2,906,425	-2,935,489
Under-indexation	incl above	incl above	-151,437	-152,951
Pooling Gain	-1,243,000	-600,000	0	0
Share of Baseline Growth	0	0	tbc	tbc
<i>Non Domestic (Business) Rates</i>	<i>-5,826,960</i>	<i>-5,048,000</i>	<i>-3,057,862</i>	<i>-3,088,441</i>
Collection Fund - Council Tax	-223,710	58,556	49,092	49,092
Collection Fund - Non Domestic Rates	-100,870	86,565	86,565	86,565
<i>Collection Fund Surplus/Deficit</i>	<i>-324,580</i>	<i>145,121</i>	<i>135,657</i>	<i>135,657</i>
	-	-	-	-
Total - Taxation	17,490,410	16,507,170	14,766,766	15,039,843
	-	-	-	-
TOTAL Funding (Grants & Taxation)	19,498,780	18,322,520	15,614,374	15,295,131
Change from Previous Year		-1,176,260	-2,708,146	-319,243

Rural Services Delivery Grant

18. Rural services delivery grant was increased in the 2021 provisional finance settlement by £4m nationally, which has resulted in a small increase of £12,018 for the Council.

New Homes Bonus

19. The New Homes Bonus was introduced in 2011-12 as a measure to incentivise house building. At its peak, the previous 6 years' worth of growth was rewarded, this is now 3 years and will be phased out completely in 2022-23.
20. It was always expected the year 7 payment and the one-off payment for 2020-21 (year 10) would both be removed in 2021-22, reducing funding by £983,852. However, it was also expected that there would a new scheme introduced to incentivise house building.
21. The new scheme has not been introduced and won't be until 2022-23 at the earliest. An additional one-off sum has therefore been allocated for 2021-22 of £224,643. This reduces the loss from the current year to £759,209. The smaller sum received for 2021-22 reflects a growth in the number of empty homes

Lower-Tier Services Grant

22. A new grant has been introduced for 2021-22 to ensure that all local authorities do not suffer a reduction in spending power (as defined by the government). The calculation is set out in the following table: -

<u>Spending Power</u>	2020-21	2021-22	Change	
As per settlement: -	£	£	£	
Council Tax	6,904,075	7,218,590	314,515	
New Homes Bonus	1,765,101	1,005,892	759,209	
Rural Services Delivery Grant	243,274	255,288	12,014	
Funding Baseline	2,906,425	2,906,425	0	
Under-indexation	116,490	151,437	34,947	
	<hr/>	<hr/>	<hr/>	
	11,935,365	11,537,632	397,733	
Lower-Tier Services Grant		397,733	397,733	
	<hr/>	<hr/>	<hr/>	
Change in Spending Power	11,935,365	11,935,365	0	0.00%

23. Whilst this funding is extremely welcome, the notion of no change in spending power is somewhat misleading. No account is taken in the calculation of pay and price inflation, spending pressures or losses of income. The calculation also uses historic taxbase growth which overstates this year's position.
24. This grant is only a one-off and no commitment has been made for a similar arrangement to exist for 2022-23 and beyond.

Localised Council Tax Support (LCTS) Grant

25. Another new grant introduced for 2021-22 is in relation to localised Council tax support. This reflects the fact that the Council tax base for 2021-22 will have been impacted through the numbers of LCTS claimants which has risen significantly during the pandemic.

Council Tax

26. The capping criteria for District Councils has remained the same for 2021-22. This means that small Councils such as Mendip District Council can increase their Band D Council Tax by a maximum of £5 without triggering a referendum.
27. The Council Tax base for 2021-22 was agreed at Full Council on 14 December 2020. The value for is 41,337.76, which is an increase of 0.88%. This increase has been impacted by the growth in LCTS claimant numbers and compensation has been received from government in the finance settlement for this (see paragraph 25 above).
28. The proposed £5 increase in Council Tax and the growth in taxbase add around £291k to income for next year. This is lower than the sum used in the calculation of the new Lower-Tier Services Grant due to the spending power calculation using an average historic taxbase growth figure.
29. Precepts are also collected by Mendip District Council on behalf of all the Parish, Town and City Councils within the Mendip area and the Somerset Rivers Authority. These all then paid over to those bodies during the year, so are cash neutral to Mendip.

Business Rates

30. The level of business rates income for next year is one of the key risk areas for the Council.
31. In response to the pandemic, in the current year £20m of additional business rates reliefs have been granted to nurseries and the retail, hospitality and leisure sector in Mendip. These have been 100% funded through additional Section 31 received from MHCLG. Some of the larger retailers, who have been largely not impacted by the pandemic, such as supermarkets and DIY stores, have subsequently repaid this relief back to government. At present, no indication has been given as to what support will be put in place for 2021-22. If a similar scheme is introduced for 2021-22, specifically targeting those impacted, this would be significantly cheaper for the government and would significantly reduce the risk to Mendip and other Councils.
32. Additionally, many other businesses have struggled to pay their business rates during the pandemic. Significant numbers have changed their payment profiles, to pay later in the financial year. It is therefore still difficult to accurately predict the likely collection rates for the current year, even though we are 10 months into the year. This will no doubt impact for 2021-22 and following years as well.
33. The government has recently introduced an additional re-imbusement scheme, which will compensate local authorities for 75% of business and Council tax losses during 2020-21. This will reduce the financial burden considerably in the current year and will reduce any deficit carried forward to

future years. There is no indication at this stage whether than scheme will be continued in to 2021-22.

34. There is normally an annual inflationary increase on the business rates multiplier. This has been suspended for 2021-22. The loss of income to the Council has been compensated through an allowance for under-indexation in the business rates calculations.
35. Across Somerset, Business Rates Pooling arrangements have been in place since 2013/14. This means that 50% of growth in business rates receipts is retained by the Somerset authorities. This will have been impacted by the pandemic as some businesses will have ceased trading and therefore the quantum of business rates collectable will have reduced.
36. The government have confirmed that the authorities within Somerset can continue as a Pool for 2021-22 and the authorities have confirmed that they wish to continue. This means that the levy on growth within the County is largely mitigated, and around £5m of additional funding should be retained within Somerset. The latest estimate of Mendip's share of the overall gain is approximately £600k for 2021-22.
37. The split of pooling gains and losses between the 4 districts and the County Council is currently 80% / 20%. This will be maintained for 2021-22. The split of losses is also on the same basis, but currently the limit of any losses for each Council is determined by the level of their safety net. This would mean that in the event of a catastrophic loss of business rates, which was not compensated by the government, the County Council would bear the vast majority of any losses.
38. Whilst this is extremely unlikely, and would almost certainly be a major national issue, for 2021-22, it is intended to change the Memorandum of Understanding between the Councils such that all gains and losses are split equitably. Further work is required for this to be agreed and the scheme will be further examined for 2022-23 to see if the current split of 80/20 is reasonable and in line with other pooling arrangements across the country.
39. A full system reset was due to take place for 2021-22 which recalculates the baseline funding requirement and reallocates any growth above that position across the sector. Mendip has benefitted from considerable growth since the introduction of the scheme in 2013-14 and therefore is likely to see a large reduction in its retained income. This has now been delayed until 2022-23.
40. Forecasts for 2022-23 and beyond have been reduced back to the current funding baseline position to mitigate the loss. It is possible that government may allow a level of growth to be retained or will implement some form of transitional relieve to phase the reduction in funding over a longer period of time. Some modelling of this is included in the section below dealing with 2022-23 and beyond.

Collection Fund Surpluses / Deficits

41. Council Tax and Business Rates operate within mechanisms called collection funds. The collection authority (Mendip) collects the funds on behalf of all of the preceptors including the County Council, Police, Fire and the Parish Councils.
42. Payments are made to each preceptor during the year based upon the estimates set within the annual budgets.
43. At the year-end there will always be a difference between the estimated income to be collected and what has actually been collected. This can be for a number of reasons, such as non-payment, additional support claimants, empty properties etc.
44. Each collection fund will therefore have either a surplus or a deficit on it at the end of each year. This is split between the major precepting authorities. Normally this carries forward to the next year as additional funding in the case of a surplus or reduced funding in the case of a deficit.
45. With the impact of the pandemic, collection rates have been impacted during 2020-21. This means that for Mendip the surpluses seen last year (£325k) are anticipated to turn into deficits of around £431k. Special arrangements have been made to allow Councils to spread this deficit over a 3 year period, rather than a single year.
46. The other change which has been introduced due to the impact of the pandemic is that a government re-imburement scheme is now in place which will compensate 75% of losses made on Council tax and business rates collection during the year. The quantum of this is extremely difficult to estimate at this point but will be paid as an additional grant in the current year.

Overall Change in Funding and Taxation

47. The table at paragraph 17 shows that the change in funding and taxation between 2020-21 and 2021-22 is a reduction of £1,176,260. This is therefore the sum which has to be found from the service / non-service budgets to produce a balanced budget for 2021-22.

Closing the budget shortfall

48. The 2021-22 budget has been informed by a process of continuing review of service delivery and planning, building on the work carried out in previous year's budget prioritisation exercises, and involves consideration and prioritisation of service activity against:

- **The corporate strategy;**
- **Current performance levels;**
- **Current projected and previous outturn levels;**
- **Delivery of Government targets;**
- **Changes in Government funding;**
- **Capital Investment requirements.**

Throughout the budget setting process, assumptions are continually reviewed and updated and Finance reviews staffing and budget forecasts with Group Managers. That process is fluid and alters almost daily as more information is gathered. From this, some limited options have been proposed to reduce expenditure. Savings are required not only to balance the budget for 2021-22 but also to limit the budget shortfall already highlighted for the remaining 2-years of this MTFS.

Adjusted Base Budget

49. The starting point for assessing the forward year MTRS position is to establish the Adjusted Base Budget. The Authority has undertaken a review of the budget in allocating resources to services for 2021-22. This has enabled a clear understanding of the projected cost of activities and enabled them to be robustly challenged. This has resulted in a number of adjustments across services as resources are redirected towards priority areas or those facing increases in demand.
50. Starting at zero focuses attention on the actual resources needed, by creating transparency of actual costs and potential inefficiencies. This facilitates the examination of activities rather than departmental budgets, fostering early debate and cross-departmental challenges. It also forces budget holders to evaluate cost effectiveness of operations and develop risk-benefit trade-offs.
51. In addition to the financial realignments, the 2021-22 Budget is amended for technical adjustments and the reversal of one-off items such as the use of earmarked reserves to meet specific items of expenditure.

Inflation

52. Anticipated movements in inflation are then included to produce an estimated standstill budget position for 2021-22. As in previous years, price inflation has been restricted to areas where it is unavoidable or otherwise beyond the Council's control, such as a staff pay award, or contractual inflation. In all other areas, budgets have been cash-limited at previous year's levels.
53. This must be recognised as a real term cut in resources for services and this will require effective management action such as volume reductions in purchasing levels or efficiency gains through improved procurement methods. Experience suggests that services are able to manage this approach, although there has been an overspend reported previously within the in-year monitoring largely caused by one-off issues. This approach may not be sustainable in the longer term for all budget areas, so will need to be monitored and any issues identified included within the budget monitoring process.
54. Inflation levels have decreased slightly during 2020 culminating in the Consumer Price Index (CPI) falling from the peak of 3.1% in November 2017, the highest for nearly six years, back to 0.6% in November 2020.
55. In the Chancellor's budget, an announcement was made that pay restraint is being re-instated on the Public Sector. Although local government has its own

pay negotiating body, the expectation will still be that this restraint is applied. Pay inflation of 1% has been allowed within the 2021-22, as there will still be increases at the lower end of the pay scales, to keep up with the National Living Wage and there is also incremental growth for staff within the pay scales.

Budget Growth

56. Wherever possible, growth pressures are minimised through the management of demand and control over costs along with realignment of resources within each service areas to higher priorities. Opportunities to redesign service provision along with the identification of increasing income have also been explored. However, where this cannot be achieved, some growth bids are made and additional funding is required.

Staffing

57. Following a review of the staffing levels and associated budgets by Group Managers for 2021-22, a net 18.6 posts have been added. Of these 16.6 FTE relate to services transferred from the 5 Council contract.

58. The 18.6 additional posts include:

- 15.6 new posts within Finance covering the services transferred from within the 5 Council contract with Capita (Accountancy, exchequer and systems). No additional net costs
- Similarly, 1 Procurement post added to Legal Services after 5 Council transfer. No additional net costs
- Additional post to deal with Parish and Town Councils within Corporate Services.
- Additional 1.2 posts for the Business Hub. This will eventually be self-financing.
- Deletion of 2.6 posts of Assistant Chief Executive and support, and existing procurement provision. Reduction of 0.75 fte in legal services.
- Additional 2 posts in Housing. These are funded from the Rough Sleeper Initiative Grant.
- Additional Intern in Communities to deal with COVID compliance and Enforcement. Funded through COVID grant.

Superannuation

59. 2021-22 will be the second year of the latest period arising from the tri-annual valuation of the pension fund. The recommendation from the actuary is for Employer Contribution Rates to continue at 17.3%, and for the deficit lump sum payment to increase from £810k to £840k (£30k). A similar increase is agreed for 2022-23.

60. The next valuation will affect the budget 2023-24. This will be affected by the impact of the pandemic on financial markets and the McCloud judgement on age discrimination.

Other growth

Drainage Levy

61. The cost of the Drainage Levies imposed by the drainage boards was increased significantly during 2020-21. This is now reflected in the 2021-22 budget, with an increase of £34k.

Minimum Revenue Provision

62. The Minimum Revenue Provision has been recalculated in the light of the delivery of the 2020-21 Capital Expenditure Programme and changes to the MRP policy on Investment Properties (see Treasury Management Strategy report). An additional 50k has been added to this budget for 2021-22. This will increase further in future years as additional borrowing is undertaken to fund unsupported capital expenditure such as the service capital programme.

Commercial Income

63. No new additional investment properties have been purchased during 2020-21.
64. The total potential income from these properties is now £3.037m. The impact of the pandemic has seen several of our existing tenants falling behind with their rental payments but to date no income has been foregone.
65. The financial viability of our tenants is extremely good, and the hope is that they can all endure the effects of the pandemic. However, a risk analysis has been undertaken based upon an assessment of their business area and financial standing.
66. Based upon this risk-weighted approach, the base budget for commercial income will be reduced by £250k for 2021-22. If full recovery of rents is possible, then the Council will benefit from the additional funding during the year.

Investment Income

67. Returns from investment income are currently at an all-time low. The Bank of England base rate is currently 0.1% and even achieving this is difficult in the current environment. The base budget for investment income has therefore been reduced by £25k.
68. The on-lend mark-up received on the loan to Somerset County Council for the purchase of the new Waste vehicle fleet is included within the base budget, which provides a positive return to Mendip.

COVID-19 Impact

69. The impact of the pandemic has been very significant in the current year. Some of this will impact in 2021-22 and beyond.
70. The government has given additional COVID grant for 2021-22 of £563,171 to deal with additional costs arising from the pandemic.
71. In addition, the Government reimbursement scheme for Sales, Fees and Charges has been extended to the end of the first quarter of 2021-22. In

addition to this, the Earmarked reserve held for COVID by the Council has been increased to £500k to deal with our share of any income losses.

72. The impact on Council Tax and Business rates have been factored into the taxbase calculations for 2021-22.

Savings

73. In reviewing the budget and service provision, every effort has been made to seek ways of doing things more efficiently, rather than making service reductions that will impact on individuals or communities.
74. The main savings identified which have assisted in resolving the budget shortfall for 2021-22 are:

Fees and Charges

75. A review of fees and charges for 2021-22 has been undertaken to ensure that they continue to achieve the agreed principles of delivering full cost recovery and complying with all legal requirements. As a result, discretionary fees are proposed to increase in line with the 2020-21 pay award (2.75%), subject to the appropriate consultation and approval being completed. The proposed fees are set out in within **Appendix C**.

5 Councils Contract

76. The current year has seen the exit of a number of services from the 5 Council Contract. These have been Accountancy in April 2020, Procurement in January 2021 and Exchequer from 31 March 2021. These contract exits have made a significant financial saving to the Council.
77. The baseline split of contract costs between the 5 Councils has been updated to reflect the basket of services now provided to each Council and the volumetrics (such as ICT provision) associated with each service. This has seen an increase in the percentage chargeable to Mendip from 21.23% to 22.43%.
78. Taking these into account, the overall net saving for Mendip on the 5 Council contract for 2021-22 is around £350k.

Interest Payable

79. The interest on external loans due is currently below the current budget by around £40k. No additional external borrowing is anticipated for 2021-22, as any need can be met through either internal borrowing or any commercial borrowing will be met from additional revenue streams.

Transfer to Reserves

80. In recent years, 40% of the New Homes Bonus received has been transferred in to reserves, to help balance future budget requirements. This would have reduced significantly, due to the reduction in the New Homes Bonus, but to help balance the 2021-22, this will be discontinued. This will save £706k in the base budget for 2021-22.

Capitalisation of Staff Costs

81. Where staff are focussed predominantly on particular capital projects, their employment costs can be capitalised as part of the project. For 2021-22, there are 2 staff working on Saxonvale which this has been applied to, which will save around £75k on the revenue budget.

Miscellaneous

82. All other service budgets have been reviewed and a number of savings have been identified in areas such as fees and hired services, election costs etc. There are also savings due from the capital investment made by the Council in the Northgate / iDox projects.

Summarised Budget Position

83. **Appendix A and B** show the General Revenue Budget Summary for 2021-22 by both Service and Expenditure Type and provides projections for the remainder of the period covered by this strategy. They show the Revenue Budget for 2021-22 is fully funded although a sizeable shortfall remains across the remaining years of the MTFS which is heavily frontloaded due to the anticipated business rates reset in 2022-23.
84. Once approved by Full Council, this will represent the financial plans that the Cabinet will manage under its delegated authority and monitor in accordance with the Financial Regulations.

Medium Term Financial Strategy Summary Position

85. The new MTFS summary position is shown in **Appendices A and B** and shows a balanced position for 2021-22, with shortfalls over the remaining 2-years of the MTFS as follows:

Scale of Financial Challenge	2021-22	2022-23	2023/24
	£000	£000	£000
Annual Shortfall	£0	£2,302	£2,704
Cumulative Shortfall	£0	£2,302	£5,006

The cumulative shortfall over the remaining two-years of this MTFS is therefore **£5m**.

Position for 2022-23 and Beyond

86. It is unclear whether planned changes such as the implementation of the Fair Funding Review, changes to the Business Rates Retention system, reset of the business rates baseline and business rates re-valuations and the introduction of a new scheme for New Homes bonus will be implemented for 2022-23.
87. The funding position shown in the table at paragraph 17 is very much a worst-case scenario. It assumes: -

- No replacement Scheme for the New Homes Bonus and no additional one-off allocations of NHB.
- No retention of any of the historic growth in business rates above the baseline, on reset of the business rates system
- No income from business rates pooling, which would probably not continue after a reset of the system
- No continuation of the allocation of Lower-Tier Services grant from 2021-22.
- No additional allocation of Lower-Tier Services grant for 2022-23 and beyond.

88. The same level of uncertainty will be facing all local authorities across the country, particularly lower-tier authorities such as Mendip.

89. Whilst the scenarios listed are all possible, it is extremely unlikely that they will all come to pass. The table below shows what the potential impact could be if some of these variables are changed:

	Change from Projection
New Homes Bonus – extra year allocation or new scheme	£200-500k
Lower-Tier Services Grant – continuation of 2021-22 allocation	£400k
Business rates – 50% of historic growth retained in new baseline	£700k
OR Business rates – 100% of historic growth retained in new baseline	£1.4m
Business Rates Pooling continues	£500k

90. It is therefore easy to see how the funding position could improve substantially from what is shown in paragraph 17. However, none of this is guaranteed.

91. Savings of around £500k are anticipated from the roll-out of Recycle More contract by Somerset Waste Partnership. These have been delayed due to the pandemic, but around £300k is still expected to be delivered in 2022-23.

92. In the worst-case scenario, additional savings will have to be found to meet any budget gap in 2022-23 and earmarked reserves would have to be used, so that any resultant service changes can be made over a number of years.

93. The sufficiency of reserves is set out in paragraph 99 below and discussed further within the Section 25 report of the Section 151 Officer (**Appendix F**).

94. The financial outlook therefore remains extremely challenging. As this is very much a national issue, the picture will no doubt become much clearer during

the course of 2021-22. Regular reports updating the position will be brought to Cabinet in due course.

Special Expenses Rate (SER)

95. **Closed churchyards:**

When a church decides a churchyard is closed it can transfer the liability for costs to the District Council. Some parishes have chosen this option while others maintain the closed churchyards and pay the costs themselves. The result is some taxpayers are paying for the cost of maintenance through their own parish Council tax charge, and additionally for other parishes through the Council tax paid to Mendip. For the parishes where the Council maintains the closed churchyard the Council has, for a number of years, recovered part of the maintenance cost by charging a 'special expenses rate' to the residents of that parish. This is felt to be a fairer method for all taxpayers.

96. **Playgrounds:**

In a similar way, Mendip maintain play areas in some towns and villages while others are maintained and paid for by the residents of the parish. Again the Council feels it is fairer to charge the parish residents for the play areas in their own community.

97. In the current financial year, the Council set a maximum annual charge of £12.50 for churchyards and £12.50 for play areas per household, even though it spends more than this in some parishes. In 2009/10 it was agreed by Full Council that in future years the cap would be increased by 25% of the charge until the maintenance charges are wholly met by the relevant parish. However, this budget recommends the SER cap remains frozen. The Council feels this policy is the most reasonable and fair method when considering all our taxpayers.

98. Details of individual parish charges under the special expenses rate can be found within **Appendix D**.

Contingencies, Balances, and Reserves

99. The Financial Strategy is to retain sufficient general balances to meet its major financial risks. The greater the level of uncertainty and risk, the more likely it is that these may be needed. Consideration has been given to the levels of contingency, reserves and balances as these are the means by which the Council can manage any movements from the planned position in the short term. Risks are reviewed regularly, and for the 2021-22 financial year, general balances should be maintained with a minimum level of £1.5m. Reserves are currently above this and are considered to be adequate, even in the context of the higher level of risk in delivering services and change with reducing resources.

100. Corporately the Council has a history of delivering outturn at or slightly below budget, although there may be some over and under spends at individual service level. This ability is due in a large part to a pragmatic approach to making suitable Revenue Contingency provision and applying it as required during the financial year. The organisation will need to continue delivering the close control of the budget achieved in previous years. This is done through devolved budget ownership in conjunction with the individual consideration of service overspends that encourage pro-active budget management.
101. The Council also keeps earmarked reserves which are amounts set aside from annual revenue budgets to meet specific known events that will happen in the future. An example of such a reserve is the amount set aside annually to meet the cost of the Mendip District Council elections that occur every four years. Cabinet set aside a budgeted amount annually to cover any exceptional or unforeseen events that may arise during the financial year. This sum is assessed and agreed on an annual basis.
102. In conjunction with the decisions on reserves, the position on the Contingency budget has also been reviewed and a continuing need for a contingency budget has been identified. Given the levels of reserves and balances, the proposal in this strategy is to maintain this budget at £100,000 throughout the 3-year period to mitigate the risks of non-achievement of the proposed savings and also unpredicted external factors which affect our expenditure or income streams during the year.
103. The Council (in common with other public bodies) continues to face a difficult financial climate and we have held our position that it is prudent to retain robust balances to smooth the potential effect to the tax payer of further cuts. Details of the Reserves and Balances can be found within **Appendix C**.

Robustness of 2020/21 Revenue Budget and the Adequacy of Reserves

104. Under Section 25 of the Local Government Act 2003, the S151 Officer is required to report to Council on the robustness of the estimates made for the purpose of calculations of the budget and the adequacy of the proposed financial reserves. The full Section 25 report of the Section 151 Officer is attached as **Appendix F**.
105. In assessing the Robustness of the Estimates there a number of factors that have been considered to enable an overview to be taken.
 - The process that has been undertaken in developing the 2021-22 budget;
 - The accuracy of the estimates;
 - A review of the operational and consequential financial risks under which the Council is operating;
 - The level of Contingency included within the 2021-22 budget available to offset unplanned expenditure.

106. The formulation of the budget allowed for best estimates of inflation and commitments necessary to maintain service levels. All estimates by their nature have a degree of uncertainty attached to them. They are however produced with the support of professional finance staff in conjunction with the expertise of the staff within the relevant service areas before being reviewed by the Corporate Finance to ensure consistency of treatment. Furthermore, with demand-led budgets, this inevitably entails a degree of judgement.
107. There has been a significant degree of scrutiny of the budget process, its proposed budgets and its savings for 2021-22 by:

- The Finance Team
- Senior Leadership Team
- Group Managers
- Portfolio Holders
- Cabinet / Scrutiny Board

This examination of the budget helps to refine the figures and provide considerable assurance about the robustness of the estimates. The Council has risk assessed all cuts made to the budget, savings have only been taken where there is a high degree of certainty about their achievement.

108. There remain, however, some key risks inherent in the 202-22 Revenue Budget and these can be broadly grouped into 3 categories:
- Risks that can be identified with some certainty and for which a reasonable estimate of impact can be made e.g. contract inflation. In these cases service base budgets have been adjusted to reflect the impacts;
 - Risks that can be identified that are almost certain to materialise but for which the size and scale of the risk is subject to some unknowns in terms of value or timing. In these cases the Contingency Budget is the most appropriate solution and this is discussed further below;
 - Risks that can be identified but which are very uncertain as to timing or impact or have a low likelihood of occurring. In these cases, the most appropriate means of delivering financial stability is through reserves and balances.

109. **Section 151 Officer – Statement on the Robustness of the Budget.**

Based on the consideration of the issues and processes used in the preparation of the budget the following statement is provided by the Section 151 Officer:

“The District Council is recommended to note that, in my opinion, the estimates used in the production of the budget proposal for 2021-22 are adequately robust”.

110. In coming to a view on the adequacy of the reserves, it is necessary to take into account the following:

- The purpose of holding reserves and balances;
 - The risks and uncertainties that may have financial consequences, their potential impact and likelihood of arising;
 - Use of reserves to mitigate risk;
 - The opportunity cost of holding reserves and balances.
111. Reserves are required to ensure that the risks that the Authority faces do not destabilise the services that it provides during the year. The Council’s financial environment is constantly changing, as are the demands on services and the needs of the population and environment. Reserves, therefore, are an important part of the Council’s financial strategy.
112. The Council therefore holds revenue reserves in order to mitigate future risks over and above those managed through the Contingency Budget, such as:
- Excessive increases in demand and / or costs over the budgeted position;
 - Delays or failure to fully realise planned savings or service reductions assumed within the 2021-22 budget;
 - Variations in forecast revenue income from Council Tax, National Non-Domestic Rates and other revenue streams;
 - Future liabilities such as insurances or pensions;
 - Exceptional events including civil emergencies identified through our Corporate Strategic Risk Register.
113. Reserves, provided that they are sufficient for core purposes, can also provide capacity for the Council to manage fluctuations in on-going demand and smooth the impact of rapid year-on-year change in levels of resources. This provides time for levels of service provision to be adjusted and suitable arrangements to be put in place to mitigate, as far as possible, the impacts of future changes. This approach has been available to offset the significant changes in funding levels from 2022-23, through the possible drawdown of £2.1m of reserves to smooth the impact of the loss of funding.
114. A careful balance needs to be maintained between holding too much and too little money in reserves. If reserves are too small, this increases the Council’s exposure to risk and endangers its capacity to deliver priorities in a planned and prudent fashion. However, it is important to remember that cash is not idle. The money the Council has in reserves is invested and interest is earned, albeit at a modest level at present.
115. **Section 151 Officer - Statement on the Adequacy of Reserves**
- “Based on the assessment of the reserves and contingencies, the key financial risks identified, and the thorough process used for developing the Medium-Term Financial Strategy, I have determined that the level of reserves and balances for 2021-22 is adequate.”**

Background Papers

116. List of background Papers:

Medium Term Resource Strategy – Full Council 24 February 2020

Medium Term Financial Plan – Cabinet 12 October 2020

Medium Term Financial Plan Update – Cabinet 7 December 2020

Medium Term Financial Plan 2021-22 Update re Local Government Finance Settlement - Cabinet 11 January 2021

Appendices

Appendix A – Revenue Control Totals by Service;

Appendix B – Revenue Control Totals by Subjective;

Appendix C – Fees and Charges

Appendix D – Summary of Reserves and Balances

Appendix E – Special Expenses Rate

Appendix F – Section 25 Report of the Section 151 Officer

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