

SCRUTINY BOARD

Agenda Item: 10

Ward: ALL

Portfolio: Enterprise and Finance

FROM: Cllr O'Leary Portfolio Holder Enterprise and Finance
Date: 16 November 2021

SUBJECT: Medium Term Financial Plan Update

	Seen by:	Name	Date
Report Sign off	Chief Executive/ Deputy Chief Executive(s)	Stuart Brown	04/11/2021
	Legal	Lesley Dolan	04/11/2021
	Finance	Richard Bates	02/11/2021
	Group Manager	Richard Bates	02/11/2021
	Portfolio Holder / Leader	Cllr Barry O'Leary / Cllr Ros Wyke	05/11/2021
	Ward Member(s)	All	
	Summary:	Attached is the draft Medium Term Financial Plan update which will be presented to Cabinet on 6 December 2021	
Recommendation:	Scrutiny board is asked to provide any comments and feedback on the draft Medium Term Financial Plan for consideration by the Cabinet.		
Direct and/or indirect impact on service delivery to our customers and communities:	See draft Cabinet report attached		
Contribution to Corporate Priorities:	See draft Cabinet report attached		
Legal Implications:	There are no legal implications arising from this report		
Financial Implications:	These are set out in detail in the draft Cabinet report attached		
Climate Change Risks and Opportunities:	There is no impact from this report		

Impact on Service Plans:	See draft Cabinet report attached
Crime and Disorder Implications:	There are no crime and disorder implications arising from this report
Equalities Implications:	There are no equalities implications arising from this report
Risk Assessment and Adverse Impact on Corporate Actions:	See draft Cabinet report attached.

CABINET

Agenda Item: DRAFT

Ward: All

Portfolio: Enterprise Finance

FROM: Cllr O'Leary Portfolio
Holder Enterprise and
Finance

Date: 6 December 2021

SUBJECT: Medium Term Financial Plan Update

	Seen by:	Name	Date
Report Sign off	Chief Executive/ Deputy Chief Executive(s)	Stuart Brown	
	Legal	Lesley Dolan	
	Finance	Richard Bates	
	Head of Service	Richard Bates	
	Portfolio Holder	Cllr O'Leary	
	Ward Member(s)	All	N/A
Summary:	<p>The current Medium Term Financial Plan covers the period from 2021-22 to 2023-24.</p> <p>This paper provides an update on the current financial year and also on the key assumptions for setting the 2022-23 budget. This is the second update paper, following the report taken to Cabinet in October 2021.</p> <p>The current budget gap is around £1m for 2022-23 but this could halve if spending power is protected in the Local Government Finance Settlement. Other additional grants and income could also help to reduce this further.</p> <p>The true picture will not be known until the Finance Settlement is received, which is expected in the week commencing 6th December.</p>		
Recommendation:	<p>Cabinet is asked to:</p> <ol style="list-style-type: none">1. Note and consider the issues raised within this report.2. Request that the Section 151 Officer conduct further work across the Council to identify any additional income streams and savings areas for 2022-23 financial year.3. Request that the Section 151 officer provides a further update following the Local Government Finance Settlement.		

	<p>4. Approves the use of up to £1.2m of the MTFP reserve to fund central Transition costs for the Unitary programme and additional staffing requirements within Mendip.</p>
Direct and/or indirect impact on service delivery to our customers and communities:	<p>Any budget gap will have to be addressed in some way. It is too early in the MTFP process to determine what impact, if any, there will be on service delivery to our customers and communities.</p>
Contribution to Corporate Priorities:	<p>Delivery of some Corporate Priorities will need an element of investment. This has been enhanced through the re-allocation of earmarked reserves in September 2021 towards the Corporate Delivery Plan priorities.</p>
Legal Implications:	<p>The Council has a statutory duty to produce a balanced budget. The Section 151 officer has a statutory duty to confirm the robustness of the estimates and the adequacy of reserves.</p>
Financial Implications:	<p>The implications of the revised budget gap are set out within the paper. There are currently a number of significant areas where national guidance is still awaited which affect the funding position for every local authority. Some of these will not be forthcoming until the local government finance settlement in December 2021.</p>
Climate Change Risks and Opportunities:	<p>No immediate climate change implications arising from this report</p>
Impact on Service Plans:	<p>Any implications on Service Plans will be considered as savings plans are developed.</p>
Crime and Disorder Implications:	<p>No implications arising from this report</p>
Equalities Implications:	<p>No implications arising from this report. Any implications from savings proposals will be considered as they are developed.</p>
Risk Assessment and Adverse Impact on Corporate Actions:	<p>At present, there are many issues which are outside of the Council's control such as the Comprehensive Spending Review 2021, Fair Funding Review, Business Rates reset and any on-going COVID-19 impact. The risk assessment is therefore currently high. Any reduction in funding will reduce the ability of the Council to deliver its priorities and will reduce the resources which will pass over to the new Somerset Council on 1 April 2023.</p>

INTRODUCTION

1. This report provides Members with a second update on the Medium-Term Financial Plan for 2022-23 to 2023-24.
2. The update to Cabinet in October 2021 updated Members on the latest financial position for the Council and also on a number of significant uncertainties in respect of the 2022-23 budget. Many of these are national funding issues and an update is provided in this report.

CURRENT FINANCIAL YEAR

3. As at the end of September, the outturn projection for 2021-22 was for a breakeven position to be anticipated by the year end. This is summarised in the following table:-

2021-22 – Period 6	Current Budget £'000	Projected Outturn £'000	Budget Variance	
			£'000	%
Corporate Services	695	795	100	0%
Law & Governance	1,162	1,162	0	0%
Neighbourhood Services	4,634	5,284	650	3.1%
Community Health Services	1,616	1,616	0	0%
Planning & Growth Services	2,459	2,599	140	5.7%
Housing Services	1,998	1,998	0	0%
5 Council Contract	2,613	2,613	0	0%
Strategic Leadership Team	785	785	0	0%
Enterprise	0	0	0	0%
Shape Housing Limited	0	0	0	0%
Net Cost of Group Services	15,962	16,852	790	1.8%
Non-Service Costs	(15,962)	(16,169)	(207)	1.3%
Use of Earmarked Reserves	0	(683)	(683)	
Net (Under) / Overspend	0	0	0	0%

4. The main variances in 2021-22 are set out below:

Pay Award –

The pay award for 2021-22 has not yet been agreed. However, the final offer from the employers is 1.75%, which is 0.75% above the budget set for 2021-22. This would cost an additional £50k for the Council. This will be an issue for the 2022-23 budget as well. There is a possibility that a two-year pay deal will now be agreed, as we are so far into 2021-22.

Corporate Services –

The current projection for Corporate Services is breakeven. However, within that there is an overspend in relation to the affordable housing project, but this is being covered through earmarked reserves.

Law and Governance –

There are likely to be some savings in relation to there being no planned elections in the current year. These have not been estimated at this early point of the year as there is still scope for these to be necessary within the year. A new grant has also been received of £25,903 in respect of FOI and GDPR requirements. The impact of the additional responsibilities are being examined to see whether any of this can be declared as an on-going saving.

Neighbourhood Services

The pressure is due to losses of Car park income in April and May, prior to the COVID-19 restrictions being lifted. Part of this will be reclaimed under the government's sales, fees and charges re-imbusement scheme which is only running for the first quarter of 2021-22.

June and July income returned to 2019 levels, but this level appears to have fallen off again for August and September. The overall loss for the year could now be in the region of £500k. The long-term impact is also currently unknown as the working arrangements for many people have changed. Markets income is also estimated to be down by around £50k this year. Part of these losses will be recovered through Covid grant.

The suspension of the Garden Waste service to protect the main waste collection service, has also caused a cost pressure in the current year. Permit holders will be given an 8 week free period which will reduce this year's income by around £100k.

Planning and Growth Services

The additional cost variance shown for Economic Development related to the extra staffing currently in place for the Glastonbury Town Deal. This will be recovered through an allocation from Earmarked Reserves.

Contracts

Additional income is anticipated on Land Charges volumes which are on course to deliver an extra £30k compared to the budget. This is however partly offset by the continued lack of any court fee re-imburements due to the recovery actions for unpaid council tax and business rates. The court service for Council Tax arrears has now restarted but this will take a while for the number of people in arrears to be processed.

Strategic Leadership Team

COVID-19 costs which are held here are currently largely limited to the Somerset Waste Partnership, compliance and enforcement of COVID-19 regulations, extra bank charges and additional costs for processing grant payments. These are covered by various grant payments which have been received from central government and new burdens funding which will follow.

Non-Service

The Commercial income forecast remains good and should exceed the income target by the year-end. This will be monitored closely throughout the year.

The MRP budget will be £28k overspent due to the short-term nature of the capital projects which were funded through borrowing in 2020-21. These are depreciated over their lifetime (e.g., laptop replacements). No further borrowing is planned, so this will not impact 2022-23.

Interest receipts are anticipated to be around £25k under budget for the current year. This is due to historic low interest rates in the year to date. These have picked up recently and some better rates are now being secured for the remainder of the financial year.

At this point, it is assumed that the MRP and interest costs will be offset by additional commercial income.

The final Sales, Fees and Charges claim has now been made to government for the first quarter of 2021-22. This totalled £207k and was predominantly in relation to the loss of car parking income. There will be no further support for lost income in this financial year.

LOCAL GOVERNMENT REORGANISATION

5. Agreement is now close to being reached on the sharing of implementation / transition costs for the new Unitary Council in Somerset.
6. The basic agreement is for the costs to be split 80% to the County Council and 20% to the Districts. The districts share will then be split of the basis of population.
7. For Mendip, this will mean a contribution of £680k. Somerset County Council are covering the costs in the current year, so our contribution will be required in 2022-23.
8. Additionally, some additional staffing resources will be needed within Mendip. Part of this will be covered by the overall transition programme (where agreed by the workstreams) such as HR / IT resource. Some however will be needed to backfill for the staff who will be working on the rest of the programme for Mendip and for acting-up arrangements where required. The sum required is difficult to estimate at this point due to the overlap with the main transition programme. Overall costs are expected to be a maximum of £200k in the current year and £400k in 2022-23. This is likely to reduce due to time taken to recruit and the overlap with the main programme.
9. A detailed cost sharing agreement is being developed by the Finance workstream which will clarify which costs will be covered by the main programme, and which commitments will remain a cost to each council. This will also ensure that only costs which are truly additional will be covered and not simply shunted from elsewhere.
10. The maximum overall commitment will therefore be around £1.2m. A recommendation has been included in this report that this is met from the MTFP reserve.

LOCAL GOVERNMENT FINANCE SETTLEMENT 2021

11. We are expecting this year's settlement to be published in the week of the 6th December 2021.

12. The Comprehensive Spending Review, issued by the Chancellor on 27 October 2021, set departmental expenditure limits for the next 3 years. It is unclear at present whether the Local Government settlement will again be a single year settlement or whether it will set out funding levels for the next 3 years.
13. The national Departmental Expenditure Limits for local government show a significant overall increase in spending power for local authorities over the next 3 years. However, once the extra adult social care funding is removed, the increase would appear significant for 2022-23 but is then cash neutral for the following two years. Some of the 2022-23 increase should flow to all councils in relation to National Insurance increases (for our own staff) and cyber security. Beyond that, there is no indication at present how any further balances will be distributed.
14. No limit was announced on any minimum increase in spending power for individual local authorities. This will be important for District Councils who are set to lose significant New Homes Bonus and Lower Tier Services Grant funding. This was set in 2021-22 such that no authority had a reduction in spending power. This will therefore be a very important element of the finance settlement for Mendip, once it is known.
15. The finance settlement will also give an update on the various potential changes to local government funding. The latest position is set out below.

ANTICIPATED CHANGES IN LOCAL GOVERNMENT FUNDING FOR 2022-23 AND BEYOND

Fair Funding Review

16. The Fair Funding review was established to set a new baseline funding allocation for local authorities based on up-to-date needs and resources. It was initially delayed in September 2019, and then delayed further in April 2020 to “allow Councils to focus on meeting the immediate public health challenge posed by the pandemic”.
17. Update - No announcement has been made on this for 2022-23 and no consultation has taken place. We can therefore assume this will not be implemented next year.

Baseline Reset

18. Linked to the fair funding review, a reset of the baseline has been expected for some time. This would remove the historic growth that Councils have received through the sharing of business rate growth since the introduction of the Business Rates Retention Scheme. Currently 50% of growth has been retained by Councils and the rest by the government.
19. This would potentially have a major impact for Councils such as Mendip who have seen significant growth in business rates. It is not known when this will happen and also whether there would be any transitional arrangements if it did take place. Additionally, the new baselines could potentially retain some of the growth since the last reset.
20. Update - The autumn statement mentions that business rates pilots will now continue until 2024. The current pooling arrangements have also been continued

for at least a further year. These would appear to rule out a baseline rest for 2022-23, but that is not yet confirmed.

New Homes Bonus

21. 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 has gradually been reduced to 3 years in 2020-21 and reduced to 2 years in 2021-22, 1 year in 2022-23 and then be removed entirely.
22. In the local government finance settlement for 2021-22, an extra one-off allocation was made based upon 2020-21 growth. This reduced the year-on-year loss for Mendip from £1m to £765k.
23. Mendip is currently expecting to lose £414k of funding from this source in 2022-23.
24. Update – no announcements have been made on the future of New Homes Bonus or any successor grant.

FUNDING PROJECTION FOR MENDIP FOR 2022-23

New Homes Bonus

25. The planned loss of New Homes Bonus is known. The current year's figure of £1.01m will reduce to £592k in 2022-23.
26. The impact of this for Mendip is therefore a total loss of around £414k of funding. It is not yet clear whether there will be any further one-off allocations.

Business Rates - pooling

27. Mendip has been in a business rates pool with the other 3 Somerset Districts and the County Council since 2015. The reward from being part of the pool is that the business rates growth in the districts offsets part of the levy payment which would otherwise be due from the County Council.
28. A decision was required by 8th October 2021 on whether the Somerset pool would continue for 2022-23, and which Councils would be part of it. Our advisors, LG Futures, provided modelling for the 5 Councils on the latest business rates projections and the risks associated with pooling in 2022-22. This included both the on-going impact of the pandemic and the potential closedown of Hinkley Point power station.
29. On the basis of the information provided, the decision was taken for the Somerset Pool to continue but for Somerset West and Taunton Council ("SWT") to be excluded. This was due to the likely closure of Hinkley point before July 2022.
30. As part of this agreement, a small amount of the overall pooling gain will be allocated to SWT by each of the other authorities, to protect their baseline gains. This will however still leave significant gains from business rates growth for the four remaining authorities, including Mendip. This will increase the Mendip business rates income expected for 2022-23.
31. We are awaiting the latest information of the current year surplus / deficit position. This should be available before the meeting so an update can be provided.

32. Collection rates have continued to improve, compared to 2020-21 but will remain lower than historic levels for the current year. The continuation of additional support to the retail, hospitality and leisure sectors for 2022-23 should help to maintain this improvement.

Pay and Inflation

33. The pay award for 2021-22 has not been agreed. The latest position is that nationally, the employers have made a final offer of 1.75%. This is 0.75% higher than budgeted. Unions are currently balloting in relation to industrial action.
34. Pay increases are running high across all sectors at present, so it is suggested that we should allow 2% at present in the 2022-23 budget. This can be revisited later in the budget setting process.
35. Inflation is also running high at present, with the latest CPI figures being 2.9%, down from a recent peak of 3.2% which was significantly higher than the government target of 2.5%. This is likely to impact our major contracts such as the 5 Council contract, Somerset Waste Partnership and idverde contract. They will all face large increases in fuel, inflation, national insurance and pay costs.
36. Most fees and charges will also be increased, and the current expectation is that these will be increased in line with inflation. This adds around £160k to projected fees and charges. However, it is likely that the fees for garden waste will remain frozen, following the suspension of the service earlier this year.

National Insurance

37. On the 7 September 2021, the Prime Minister announced that there would be a 1.25% increase in employer and employee national insurance contributions from 1 April 2022. This will add around £80k to employment costs for the Council. Additional funding should be allocated to the Council to cover the costs for council employees, but no allowance will be made for those staff employed by outside companies who provide services to the council.

Council Tax

38. The spending review confirmed that the current cap of 2% will continue to apply for increases in Council Tax.
39. The current rules for increases also allows small Councils such as Mendip to increase Band D by £5, which is higher than a 2% increase. This is not confirmed but anticipated to continue and would increase council tax income by £204k.
40. Growth in the taxbase also adds additional income. Last year this was 0.87% but the provisional figure for 2022-23 is only 0.35%. This is partly related to housing development currently being delayed due to the phosphate issues in Somerset. The number of empty homes has however reduced significantly, back nearer to pre-pandemic levels.
41. The position of Council Tax surplus / deficit for the current year will be updated at the meeting.

Secured Savings

42. Savings are also anticipated in 2022-23 in relation to the roll out of Recycle More by the Somerset Waste Partnership. This programme has however been delayed by the pandemic and an update is being sought from the partnership on the current timescales.

43. There will be a saving on the 5 Councils' contract from 1 January 2023 onwards. This is due to the loan which was used to finance the contract originally being fully repaid at that point. This will save around £60k per month and will have a full-year effect in 2023-24 for the new Council.

Overall Projected Funding Position (Excluding Covid-19 Impact)

44. The overall position for Mendip, as a direct comparison to 2021-22 is shown in the following table. This does not however take into account the additional impact of COVID-19.

MENDIP DISTRICT COUNCIL FUNDING

	2021-22	2022-23	2023-24
	£	£	£
<u>Non-specific grant income</u>			
Revenue Support Grant	0	0	0
Rural Services Delivery Grant	-255,288	-260,000	-265,000
New Homes Bonus	-1,005,892	-592,320	0
Lower-Tier Services Grant	-397,732	0	0
Council Tax Support (LCTS) Grant	-156,438	0	0
Total - Non Ringfenced Grants	-1,815,350	-852,320	-265,000
<u>Taxation</u>			
MDC Council Tax Precept	-6,887,280	-7,116,532	-7,358,287
Special Expenses Rate	-207,960	-209,960	-211,960
Parish Precepts	-4,436,650	-4,436,650	-4,436,650
Precept Somerset Rivers Authority	-76,061	-76,502	-76,885
	-	-	-
<i>Council Tax</i>	<i>11,607,951</i>	<i>11,839,644</i>	<i>12,083,782</i>
MDC Share of Business Rates	-4,448,000	-4,772,000	-2,935,489
Under-indexation	Incl. above		-152,951
Pooling Gain	-600,000	-800,000	0
Share of Baseline Growth	-349,420		tbc
<i>Non-Domestic (Business) Rates</i>	<i>-5,397,420</i>	<i>-5,572,000</i>	<i>-3,088,441</i>
Collection Fund - Council Tax	58,556	49,092	49,092
Collection Fund - Non-Domestic Rates	86,565	86,565	86,565
<i>Collection Fund Surplus/Deficit</i>	<i>145,121</i>	<i>135,657</i>	<i>135,657</i>
	-	-	-
Total - Taxation	16,860,250	17,275,987	15,036,565
	-	-	-
TOTAL Funding (Grants & Taxation)	18,675,600	18,128,307	15,301,565
	-	-	-
Change from Previous Year		-547,293	-2,826,742

45. In addition to this, inflationary pressures, for pay and prices, will add around £675k to budgeted costs for 2022-23. This could potentially be higher, as the indexation on the SWP contract is linked to inflation, earnings and fuel price increases.
46. Partly offsetting this will be £150k increase in fees and charges and also savings on both the SWP contract and the 5 Councils' contract.
47. The projected budget gap for 2022-23, on a like for like basis is therefore around £1m at present, assuming no reset of the business rates baseline and increased business rates pooling income.
48. If "spending power" is protected in the Local Government Finance Settlement, this could provide around £450k in additional Lower Tier Services Grant for 2022-23. This would halve the budget gap.
49. The following table shows the potential grant which could be due to Mendip for 2022-23 if the same calculation was used.

<u>Spending Power 2122 to 2223</u>			
	2021-22	2022-23	Change
As per settlement:-	£	£	£
Council Tax	7,218,590	7,518,590	300,000
New Homes Bonus	1,005,892	592,320	-413,572
Rural Services Delivery Grant	255,288	265,000	9,712
Funding Baseline	2,906,425	2,906,425	0
Under-indexation	151,437	186,000	34,563
Lower-Tier Services Grant 21-22	397,733	0	-397,733
	<u>11,935,365</u>	<u>11,468,335</u>	<u>-467,030</u>
Lower-Tier Services Grant 22-23		467,030	467,030
Spending Power (& change)	11,935,365	11,935,365	0 0%

50. A further year of New Homes Bonus funding may also be provided. However, anything the Council receive for this would reduce the sum received for Lower Tier Services Grant (if continued).
51. Therefore, if no fundamental changes are made to local government funding for 2022-23, the best-case scenario could be a shortfall of around £500k.
52. There are still other unknowns at this point. We are likely to receive an additional grant to compensate for the increase in National Insurance. We will also need to revisit the risk-based analysis of our commercial income. Our income target was reduced by £250k last year due to the pandemic. However, our income is still holding up so we may be able to increase this. A rent review is also underway for one of our tenants.

53. These issues will continue to be firmed up and an accurate estimate will be possible once the Local Government Finance Settlement is received.

54. For 2023-24, there are some significant savings in the pipeline – including the full year effect for 5C loan and SWP recycle-more savings. However, some of the delayed funding changes set out above may still be introduced, such as the reset of the business rates baseline. This is assumed in the funding losses above but in reality we will probably see some transitional funding applied if there are major changes in 2023-24.

IMPACT OF COVID-19 ON FUTURE BUDGETS

55. The future impact of the COVID-19 pandemic is extremely difficult to predict.

56. The expected areas of income loss are:-

- a. Continued reduction in sales, fees and charges. This will be particularly around car parking income as working arrangements have changed for many people.
- b. Potential losses of council tax and business rates.

57. No further government support is expected for income losses or tax losses.

58. A sum of £500k was set aside in 2020-21 to cover potential income losses in 2021-22. At present, losses were around £350k in quarter 1 (offset by £207k government reimbursement) but the impact for the rest of the year is unclear, particularly around car parking. No further government support is due after Q1.

59. It would appear that on current projections, there is sufficient funding set aside for this not to be an issue in the current year.

60. In 2020-21, an additional £17m of business rates relief was provided to the retail sector. This has been partly continued in 2021-22, with full relief provided to the end of June and 66% relief provided for the rest of the financial year. Clearly this had reduced the risk of default for these 2 years. In the Spending Review, it was also announced that this support will continue in 2022-23 at a rate of 50%. This will help reduce the risk of business failures in these areas next year.

RECOMMENDATION

Cabinet is asked to:

1. Note and consider the issues raised within this report.
2. Request that the Section 151 Officer conduct further work across the Council to identify any additional income streams and savings areas for 2022-23 financial year.
3. Request that the Section 151 officer provides a further update following the Local Government Finance Settlement.

4. Approves the use of up to £1.2m of the MTFP reserve to fund central Transition costs for the Unitary programme and additional staffing requirements within Mendip.

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Background Papers

2021-22 MTFP Report (Feb 2021 Full Council)
Quarter 1 Budget Monitoring Report (6/9/21 Cabinet)
MTFP Update Report (4/10/21 Cabinet)