

**OVERVIEW AND SCRUTINY COMMITTEE**

**DATE OF MEETING: 19 JANUARY 2021**

**TITLE OF REPORT: DRAFT BUDGET 2021/2022**

**Report of: Head of Corporate Services**

**Cabinet Member: Councillor James Radley, Deputy Leader and Finance**

**I PURPOSE OF REPORT**

- 1.1 This report provides a summary of the revenue and capital budget proposals for 2021/2022 to enable Committee to forward its comments on the proposed draft budget and Council Tax levels to Cabinet.
- 1.2 This draft budget references numbers included in the provisional finance settlement for 2021/2022 which was published on December 17<sup>th</sup> 2020. The final settlement is expected in late January or early February 2021.
- 1.3 It is important to note that the Government's multi-year Spending Review, due in 2019 was once again replaced by a short-term Spending Round. What this means is that, in substance, any budget to be proposed will only be for one-year only. No figures have been made available for local government funding beyond 2021/22, either nationally or locally. This report therefore cannot give any realistic projection for 2022/2023, however indicative budget requirements have been entered.

**2 OFFICER RECOMMENDATION**

- 2.1 That the Committee forwards to Cabinet any comments it has on the approach adopted to preparing the draft budget.

**3 BACKGROUND INFORMATION**

- 3.1 The Government postponed the Spending Review due in 2019 and once again published a short-term (one-year) Spending Round. This is the second consecutive one-year settlement necessitated this year by the Covid-19 pandemic, following on from last year's Brexit general election.
- 3.2 The Government has promised once the pandemic is over to revisit the priorities for reform of the local government finance system.

**Summary of Proposals for 2021/22:**

- a uniform percentage increase in 2020-21 Revenue Support Grant (RSG) allocations, based on the change in the Consumer Price Index (CPI)
- a freeze in Baseline Funding Levels (BFLs) at 2020-21 levels, to match the freeze in the business rates multiplier
- an increase in section 31 grant for the under-indexation of the multiplier, to compensate for the freeze in the business rates multiplier

- eliminating so-called 'negative RSG', through the use of forgone business rates receipts.
- a bespoke council tax referendum principle of up to 2% or £5, whichever is higher, for shire district councils
- a new round of NHB payments in 2021-22, which will not attract new legacy payments
- allocation of a new Lower Tier Services Grant

3.3 This means it is not possible to give any meaningful assessment of the potential budget position beyond 2021/2022. The report details each key areas of the budget in its own section below; to enable Members of the Committee to consider and provide comments accordingly.

#### **4 COUNCIL TAX**

4.1 The Government anticipates, as in previous years, that local authorities such as Hart will increase council tax in 2021/2022 by a core principle of up to 2% or £5 on a Band D property. Any higher rise will require holding a local referendum. Consequently, the budget proposals included in this report assume a £5 increase in 2021/2022. The financial effect of this increase is to add approximately £205k annually to income. The Government has incorporated the full increase as an assumption in Local Authorities' increase in spending power.

#### **5 NEW HOMES BONUS (NHB)**

5.1 The Government made substantial changes to the NHB scheme from April 2017, as it diverted funding away from districts to counties and unitaries to fund adult social care pressures. Payment periods have also been reduced from 6 to 4 years. From 2017 a national baseline of 0.4% growth was introduced. The Council relies heavily on funding from NHB with approximately 25% of the net revenue budget being funded by NHB in 2020/2021.

5.2 In the 2020/21 Finance Settlement the Government made a new round of allocations to the NHB maintaining the growth baseline for payments at 0.4%. They will not however make any legacy payments on allocations made in earlier years. The Government plans to consult on the future of the housing incentive in early 2021/22. This will include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering needed homes.

5.3 The Financial Settlement proposes that Hart will receive £1.847 million in NHB in 2021/22, a reduction of £0.503 million. The NHB is likely to further reduce to £0.506 million in 2022/23. The Government makes it clear that that NHB will be phased out.

5.4 There is, therefore, a significant future risk to the Council and whilst the Government has said that it will consult on replacements for NHB in 2021 there is absolutely no certainty as to what this could look like.

## 6 LOWER TIER SETTLEMENT GRANT

- 6.3 The 2020/21 Finance Settlement introduced an un-ringfenced lower tier services grant, which is to be used specifically to ensure that no council sees a reduction in core spending power because of the NHB changes. This funding is in response to “the current exceptional circumstances and is a one-off”. The increase in spending power relies on Local Government increasing Council Tax by the core principle of up to 2% or £5 on a Band D property.
- 6.4 The Financial Settlement proposes that Hart will receive £0.1839 million in Lower Tier Settlement Grant in 2021/22. This will reduce the impact in the reduction in NHB from £0.503 million to £0.319 million.

## 7 COUNCIL TAX SUPPORT SCHEME

- 7.1 Since 2013, local authorities in England have been responsible for running their own local schemes for help with council tax - Council Tax Support. Councils can choose to either reduce the discount paid to working age claimants or find income to make up the reduction. The Council has always agreed not to reduce the discount (benefits) paid to such claimants but to fund the cost from the revenue account. There are no proposals to change the arrangement for 2021/22, however a detailed review of this scheme will be commissioned to take place in early 2021/22 to inform future years.

## 8 FEES AND CHARGES

- 8.1 The Budget has been prepared taking account of the following changes to charges in the main service areas:-
- Car Parking – Charges have remained the same with the exception of Annual Residents and Visitors Parking Permits, which will see price rises of up to £40.
  - Council Accommodation - The hiring of Council Rooms has seen material increases to hourly charges (by up to £15.50 in the highest case).
  - In all other cases, where the Council has flexibility in setting and charges the general intention is to increase them by inflation (0.5%) or up to the nearest £, where applicable, unless any individual scheme of delegation allows flexibility to set specific fees and charges or Statutory charges apply.

## 9 GROWTH AND SAVINGS INCLUDED IN BUDGET

- 9.1 An incremental approach to the budget is being followed in building this budget. It includes identifying areas for further savings, as well as any opportunities to secure new sources of income.
- 9.2 Section 12.1 below shows the current pressure for movement of budgets between 2020/2021 and 2021/2022. In light of current risks the details of any budget

movements are still being evaluated and will be refined further before final consideration by Cabinet.

9.3 However, the following areas represent some of the more significant and ongoing cost pressures:

- Contract changes; insourcing services can bring initial increased costs in earlier years. £140K
- Recyclate income reduction from Hampshire County Council £250K
- Downward adjustments in Covid due to likelihood in full income recovery during early months of 2021-22 - £220K

9.4 A combination of reduced income and increased cost pressures have left the Council with an anticipated budget deficit for 2021/22 of £381K and in 2022/23 a further deficit of £1,018K. The deficit is both structural and significant and the current lack of commercial opportunities coming forward requires the Council carries out a root and branch review of income and expenditure which will require Members to take difficult decisions to prioritise available budget in future years. It is essential that expenditure decisions for future years are made by Period 5 of 2021/22 to allow plans to be implemented to deliver savings in 2022/23.

## **10 OUTTURN BUDGET FOR 2020/2021**

10.1 The outturn budget is expected to be in deficit in 2020/2021. This is due to the loss in income plus an increase in expenditure in response to the COVID-19 pandemic.

10.2 Significant income will be lost in 2020/21 primarily in Parking and Leisure. The Government partly compensates for this loss. The loss is estimated to be c.£700K.

10.3 Additional spending has also been necessary to support the community, employees, and the workplace during the pandemic. The additional expenditure is likely to be c.£500K.

10.4 These pressures are tempered by savings in staff vacancies, travel and expenses plus Government support grants – c. £500K.

10.5 Some of the above losses are expected to be mitigated by both use of reserves and Central Government subsidies to counteract the direct effects of Covid-19 on Council income and expenditure.

## **11 CAPITAL PROGRAMME**

11.1 The proposed 2021/2022 Capital Programme is attached as Appendix 2.

## 12 DRAFT BUDGET 2020/2001

12.1 The table below summarises the draft budget for 2021/2022 compared to the approved (revised) 2020/2021 budget

	2020/2021	2021/2022	
	Budget	Draft	
	£000	£000	
Net Service Budget	9,174	10,536	
SANG Expenditure	258	258	Funded from allocated S106 receipts
<b>Cost of Service</b>	<b>9,432</b>	<b>10,794</b>	
Debt Interest	12	12	
MRP	469	406	
New Homes Bonus	-2,377	-1,847	Provisional Local Government Settlement
Lower Tier Services Grant		-200	Provisional Local Government Settlement
Pressures	1,218	610	Change programme variables
<b>Net Expenditure</b>	<b>8,754</b>	<b>9,776</b>	
<b>Financed by</b>			
Council Tax	-7269	-7,487	Provisional Local Government Settlement maximum increase
Business Rates Retained	-1,297	-1,400	Provisional Local Government Settlement
Collection Fund – CT Surplus	-31		Collection Fund estimate
Collection Fund – NNDR Deficit	154		Collection Fund estimate
S106 receipts	-53	-53	Allocation as per approved expenditure
SANG receipts	-258	-258	Allocation as per approved expenditure
Commercial Income		-196	
<b>Total Financing</b>	<b>-8,754</b>	<b>-9,395</b>	
Transfer from Reserves		381	

12.2 The major revenue funding risks and decisions looking beyond 2021/22 to be considered to ensure financial sustainability:

**Funding Risks**

- Spending Review 2021 – may reduce the totality of local government funding
- Fair Funding Review – risk of losing further central government funding as it is distributed elsewhere
- Changes to New Homes Bonus
- Changes to 75% business rates retention from 2022/2023
- General delays and uncertainty on future funding caused by Covid-19
- Uncertainty over future Planning Fee income (this will inevitably fluctuate)
- Concerns in delivering previously estimated levels of Commercial Income.

12.3 Appendix 2 details areas for discussion and a timeline for implementing savings plans to ensure a balanced position in 2022-23.

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**APPENDICES:**

Appendix 1 – Capital programme 2021/2022

Appendix 2 - Confidential Appendix

## Appendix I - Capital programme 2021/2022

## Capital Programme 2021-2022

Service Area and Description	2021/22 Budget requested £'000	2022/23 Estimate £'000	2023/24 £'000	Source of Funding
Upgrade of Checkpoint Firewall	20	0	0	Digital Transformation Reserve
Upgrade of Backup solution	15	0	0	Digital Transformation Reserve
Warranty for laptops	10	0	0	Digital Transformation Reserve
Server Infrastructure refresh	20	0	0	Digital Transformation Reserve
Edenbrook apartments final payment	6,800	0	0	PWLB External Borrowing
<b>Total Corporate Services</b>	<b>6,865</b>	<b>0</b>	<b>0</b>	
Disabled Facilities Grant	500	500	500	Grant – Better Care Fund
<b>Total Community Services</b>	<b>500</b>	<b>500</b>	<b>500</b>	
Fleet Pond - Visitor Enhancement	75	31		SI06
Fleet Pond - Fencing	21			Capital receipts reserve
Fleet Pond - Ecology	25			SI06
Hazeley Heath - Grazing Project	50			SI06
Hazeley Heath - Notice Boards / HW improvements	27			SI06
Hazeley Heath - Access Improvements		10		SI06
HW Central Common - Access Improvements	80			SI06
Edenbrook - Play Tree	30			SANGs
Edenbrook - Visitor Improvements	20			SI06
Edenbrook - History Walk	20			SANGs
Edenbrook - Skate park and Bike Track	165			SI06
Edenbrook - Teen Health		65		SI06
Edenbrook Community Garden	120			SI06
Bramshot Farm - Capital	150	145	500	LEP Grant (SANGs)
Fleet Pond - Access Track	110			SI06
EV Chargers	82			Capital Receipts Reserve
New Tractor	25			TBA SANGs
New Bailer	20			TBA SANGs
<b>Total Environmental and Technical</b>	<b>1,020</b>	<b>251</b>	<b>500</b>	
<b>Council Totals</b>	<b>8,385</b>	<b>751</b>	<b>1,000</b>	