

<b>JOINT MEETING OF SCRUTINY COMMITTEES</b>	AGENDA ITEM No. 4
<b>22 FEBRUARY 2021</b>	<b>PUBLIC REPORT</b>

Report of:	Peter Carpenter, Director of Corporate Resource	
Cabinet Member(s) responsible:	Councillor David Seaton, Cabinet Member for Finance	
Contact Officer(s):	Peter Carpenter, Director of Corporate Resources Kirsty Nutton, Head of Corporate Finance	Tel. 452520 Tel. 384590

**MEDIUM TERM FINANCIAL STRATEGY 2021/22 TO 2023/24-PHASE TWO**

RECOMMENDATIONS	
<b>FROM: Cabinet Member for Finance</b>	<b>Deadline date: 23 February 2021</b> Cabinet meeting
<p>It is recommended that the Joint Meeting of Scrutiny Committees considers the following updates within the Medium-Term Financial Strategy (MTFS) 2021/22-2023/24, which is within the outlined in <a href="#">Appendix 1</a>.</p> <ol style="list-style-type: none"> <li>1. The budget position for 2021/22-2023/24 – the MTFS</li> <li>2. The Phase Two service proposals, outlined in Appendix B, within the attached MTFS report</li> <li>3. The forecast reserves position, and the statutory advice of the Chief Finance Officer outlined in Section 6 - The Robustness Statement, of the attached MTFS report</li> <li>4. The strategic financial approach taken by the Council</li> <li>5. The revised capital programme</li> </ol> <p>Any recommendations made by the Joint Meeting of the Scrutiny Committees will be reported to Cabinet on 23 February 2021 for consideration.</p>	

**1. ORIGIN OF REPORT**

1.1 This report comes to Joint Meeting of Scrutiny Committees as part of the Council’s formal budget process as set out within the constitution and as per legislative requirements to set a balanced budget for 2021/22.

**2. PURPOSE AND REASON FOR REPORT**

**2.1 Purpose**

At the Cabinet meeting on 23 February Cabinet will formally consider the budget proposals included within the Medium-Term Financial Strategy, to set a balanced budget for the financial years 2021/22. There is a legal requirement to set a balanced budget for 2021/22. The purpose of that report is to:

- Recommend that Cabinet approve the Phase Two budget proposals
- Recommend that Cabinet approve the budget assumptions to update the Medium-Term Financial Strategy (MTFS), to ensure estimates reflect the most up to date information available
- Outline the financial impact of C-19 and other financial challenges facing the Council, in setting a balanced budget for the MTFS 2021/22-2023/24
- Outline the strategic approach and actions taken by the Council to deliver a balanced budget in 2021/22

- 2.2 This report comes to the Joint Meeting of Scrutiny Committees as part of the Council's formal budget setting process. Any recommendations made by the Joint Meeting of the Scrutiny Committees will be reported to Cabinet on 23 February for consideration.

### 3. **TIMESCALES**

Is this a Major Policy Item/Statutory Plan?	<b>YES</b>	If yes, date for Cabinet meeting	<b>23 February 2023</b>
Date for relevant Council meeting	<b>3 March 2021</b>	Date for submission to Government Dept. ( <i>Please specify which Government Dept.</i> )	<b>N/A</b>

### 4. **Executive Summary**

At Council held on 9 December 2020, MTFs 2021/22-2023/24 Phase One was approved, outlining a revised budget gap of £35.7m in 2021/22, rising to £38.6m at the end of 2023/24. This required the Council to make further savings in order to set a legally balanced budget in 2021/22 and future years.

The Council has been operating in challenging financial circumstances for several years and unless immediate action was taken to reduce the costs of its operations markedly in the medium term, expenditure was estimated to exceed income with extremely limited recourse to reserves.

The Council's financial challenge has developed over the years due to underfunding, exposure to greater levels of risk and low financial resilience, resulting from its low reserves balances. Despite all of this the Council has continued to perform well, providing vital services to its 202,000 residents, whilst at the same time managing demand and keeping expenditure low. It is because of this that the C-19 pandemic has had such a pervasive impact on the Council's finances.

Since the 2018 the Council has subjected its financial strategy and approach to financial sustainability to rigorous financial challenge and since the summer of 2019 have implemented an enhanced series of expenditure controls.

The Council undertook an intensive six-week period of investigative and service review work in the early months of 2020, more than a year in advance of when the budget requires approval to close the 2021/22 £14.2m deficit. At the commencement of lockdown £11.9m of saving opportunities had been identified with full validation process and more detailed business case development to be undertaken. As a direct result of responding the C-19 pandemic these opportunities were impaired to £3.6m.

As a direct result of the C-19 pandemic response and recovery in 2020/21 the Council is reporting an additional £42.3m of pressure. These pressures are largely being covered by government funding, but it is expected there will be long term impacts for which future longer-term funding is unknown. As a result of forecasting the longer-term impact of C-19 the Council has factored in pressures such as the rising costs of Adult Social Care, Local Tax loss and the non-delivery of current MTFs saving plans. As the C-19 pandemic has progressed, and after conducting a further review, an additional £1.8m of pressure has been included in Phase Two of the MTFs.

The Council has continued to review its budget assumptions and identify saving opportunities, which has enabled it to reduce the budget gap by £11.1m. This included a thorough review of the Council Tax and NNDR income base assumptions, a review of the cost of borrowing and debt redemption using capital receipts. The Local Government Final Settlement has confirmed a further £12.7m of funding in 2021/22, of which £8.9m is one-off. This has provided the Council with some short-term security to meet the pressures from C-19 and the rising costs of Adult Social Care. After applying these adjustments to the budget, the Council's budget gap in 2021/22 has been reduced to £13.7m. The Local Government Finance Settlement is for one year. It is expected that the fairer funding review will take place in 2022/23.

In October 2020 the Council approached Ministry of Housing Communities and Local Government (MHCLG) to enable the further exploration of alternatives to issuing a S114 notice. The Council has been engaged in regular discussions with MHCLG in respect of the Council's finances and has now received approval for a capitalisation direction of up to £4.8m in 2020/21 and approval in principle for

up a capitalisation direction of up to £20.0m in 2021/21. This exceptional support has enabled the Council to propose a balanced budget for 2021/22. The Council will continue to work closely with MHCLG over the coming months to develop a delivery model to secure financial sustainability and provide assurance to satisfy the conditions attached to the exceptional support to secure final approval by the Secretary of State.

In summary, to set a legal balanced budget the Council is reliant on the receipt of exceptional support from Government. A confirmation has been received that this exceptional support is to be conditionally provided in the form of a capitalisation direction which will enable the Council to borrow monies to fund revenue expenditure. Approval of this strategy is recommended due to the underlying funding deficit now inherent in the Council's funding envelope that in turn means alternative options to fund the budget gap to the value presented are absent. **The Council has no recourse to alternative options. Without receipt of the exceptional support, the Council is not able to set a legal budget which is the requirement of Full Council.**

The proposed changes in 2021/22, from Phase One MTFs to Phase Two MTFs, are summarised in Chart below, with further detail shown in Table 1.

### Budget Summary Position 2021/22

**Existing budget gap from phase one £35.7m + pressures £1.8m - additional funding & revised estimates £23.8m and £13.7m Exceptional Support (assumed Capitalisation Direction) = balanced budget**

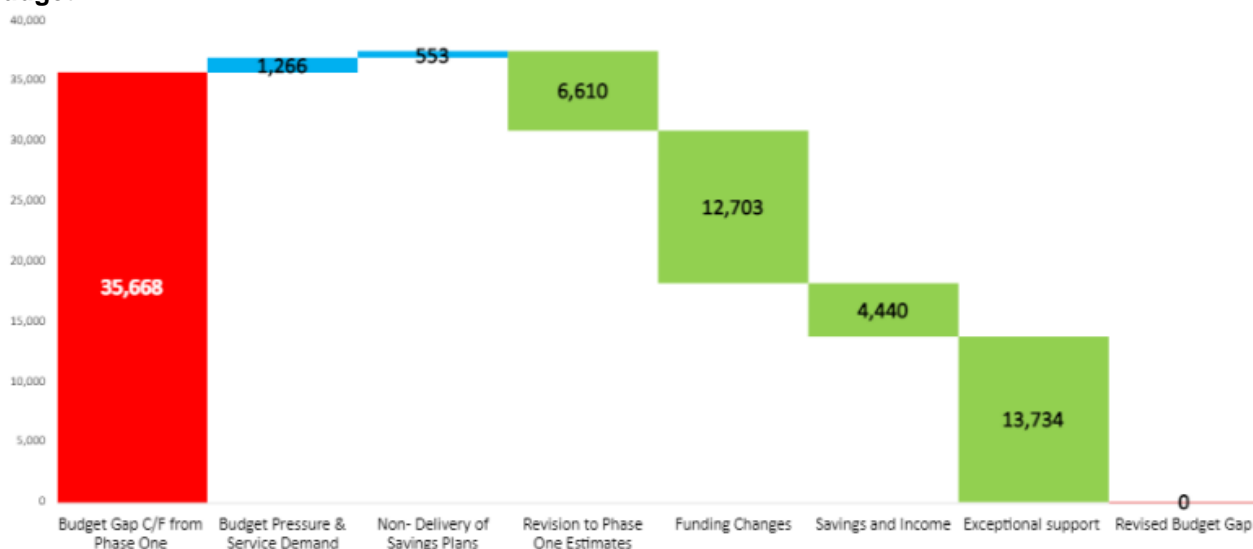


Table 1 summarises the overall budget position for both Phases One and Two, starting with the opening budget gap of £14.2m, identified within the 2020/21 MTFs. Although the Council has been able to propose a balanced budget in 2021/22, with support from MHCLG, the scale of the financial challenge in future years remains significant with budget gaps of £26.8m in 2022/23 and £28.9m in 2023/24. The Council will continue to work closely with MHCLG to secure financial sustainability for the future to ensure that the provision of vital services continues.

**Table 1: Budget Position Summary - 2021/22-2023/24 (Phases One & Two combined)**

Budget Position Summary - 2021/22-2023/24	2021/22	2022/23	2023/24
	£000	£000	£000
<b>Budget Gap from 2020/21 MTFs</b>	<b>14,245</b>	<b>14,808</b>	<b>14,609</b>
Budget Pressure & Service Demand	13,595	16,042	18,562
Non-Delivery of Savings Plans	5,731	5,731	5,731
Collection Fund Losses: Council Tax & NNDR	938	1,247	1,247
<b>Revised Budget Gap</b>	<b>34,509</b>	<b>37,828</b>	<b>40,149</b>
Funding Changes	(13,676)	(5,050)	(6,433)
Savings and Income	(7,099)	(5,985)	(4,806)
Exceptional support from MHCLG ( <i>assumed Capitalisation Direction</i> )	(13,734)	0	0
<b>Budget Gap</b>	<b>0</b>	<b>26,793</b>	<b>28,910</b>

## Phase Two Budget Proposals 2021/22- 2023/24

The proposed budget position is summarised within Table 1, Table 2 sets out the proposals included within Phase Two of the MTFS 2021/22. The major items included within these proposals are:

- Revised Collection Fund deficits and income base for both NNDR and Council Tax
- The inclusion of the grant funding identified in the Local Government Provisional Finance Settlement
- Revised capital financing costs including the redemption of debt with capital receipts
- Inclusion of exceptional support, in the form of a 'Capitalisation Direction'. This is where approval is granted from the government to use capital funding (borrowing) to fund revenue. The Council has asked for exceptional support, as a result of its challenging financial position, meaning the Council is unable to set a balanced budget in 2021/22 and future years. The government has notified the Council that they are minded to support the Council's application for exceptional support with a capitalisation direction in 2020/21.

**Table 2: 2021/22-2023/24 Phase Two budget proposals**

	2021/22 £000	2022/23 £000	2023/24 £000
<b>Revision to Phase One Estimates</b>	<b>(6,610)</b>	<b>(6,225)</b>	<b>(7,183)</b>
Adult Social Care- market sustainability	(363)	637	637
Adult Social Care- Cost Drivers and Demography review	1,300	500	500
Children's- Family Safeguarding	(700)	-	-
Increase in Sundry Bad Debt Provision- due to the economic impact of the C-19 Pandemic	200	-	-
Business Rates (NNDR) Collection Fund Deficit- Spread over three years	(1,496)	(1,701)	(1,701)
Council Tax Collection Fund Deficit- Spread over three years	(890)	(376)	(376)
Business Rates (NNDR) Income Base	(3,482)	(3,702)	(4,728)
Council Tax Base Reduction	(1,071)	(1,120)	(1,113)
Increase in Bad Debt Provision as a result of reduced Business Rates (NNDR) Collection	271	(264)	(303)
Increase in Bad Debt Provision as a result of reduced Council Tax Collection	(500)	(400)	(300)
Business Support Services	146	146	146
Communications- Saving and income adjustment	(26)	54	54
<b>Budget Pressure &amp; Service Demand</b>	<b>1,266</b>	<b>2,256</b>	<b>2,257</b>
Engagement Manager	62	62	62
External Audit Fees	100	100	100
Pay Increments	621	621	621
Specialist Technical Support for ERF Changes	25	15	15
Exceptional support from MHCLG (Capitalisation Direction - cost of borrowing)	150	1,150	1,151
Agenda for Change	308	308	308
<b>Savings and Income</b>	<b>(4,440)</b>	<b>(3,326)</b>	<b>(2,147)</b>
Blue badges	(13)	(13)	(13)
Registered Managers Network	(10)	(10)	(10)
Reduction in grade of Financial Investigator in Communities team	(4)	(4)	(4)
Reorganisation of City Centre Management	(50)	(50)	(50)
Reorganisation of Communities and Partnerships Management	(49)	(49)	(49)
Sustainable Growth restructure	(20)	(20)	(20)
Re-deeming Debt with Capital Receipts	(2,433)	(2,603)	(233)
Review of inflation and Fees and Charges	(96)	(148)	(122)

Capital Financing Capital Programme Review- Reduction in Capital Financing Costs	(1,492)	(356)	(1,373)
Increased Income and Staffing, Supplies and Services Savings in the Governance Directorate	(135)	(135)	(135)
Sharing Data Protection role with Cambridgeshire County Council	(38)	(38)	(38)
Re-profiling of the PFI insurance Rebate	(100)	100	(100)
<b>Funding Changes</b>	<b>(12,703)</b>	<b>(3,079)</b>	<b>(3,154)</b>
Additional Social Care Funding	(993)	(993)	(993)
C-19 Response Fund Tranche 5	(6,366)	-	-
Council Tax Increase- 3% Adult Social Care precept and 1.99% General Council Tax increase (total 4.99%)	(1,674)	(1,747)	(1,822)
Lower Tier Services Grant	(281)	(281)	(281)
New Homes Bonus	(988)	-	-
Revenue Support Grant (RSG)- Inflationary increase	(58)	(58)	(58)
Tackling Troubled Families grant extension	(753)	-	-
Local Council Tax Support Grant	(1,590)	-	-
<b>Non- Delivery of Savings Plans</b>	<b>553</b>	<b>553</b>	<b>553</b>
HR Controls- Agency Saving	447	447	447
Impairment of Business Improvement saving budgeted from April 2021	68	68	68
Impairment of Place & Economy saving increase budgeted from April 2021	38	38	38
<b>Exceptional support from MHCLG (Capitalisation Direction)</b>	<b>(13,734)</b>	<b>0</b>	<b>0</b>
Exceptional support	(13,734)	-	-
<b>Grand Total</b>	<b>(35,668)</b>	<b>(9,821)</b>	<b>(9,674)</b>

Full budget details are outlined in the MTFS report in Appendix 1.

## 6. CONSULTATION

- 6.1 Cabinet have presented the budget proposals in a meeting with the Cross-Party Budget Working Group on the 5 February to seek views, including the opportunity to make alternative suggestions.

There will be no formal public consultation for this Phase of the budget, due to the nature of the proposals, as there is no impact on service users.

## 7. ANTICIPATED OUTCOMES OR IMPACT

- 7.1 The release of Phase Two of the 2021/22 MTFS, outlines budget proposals to address the financial gap and the financial challenges facing the Council as a result of years of austerity measures and C-19 pandemic.

The Council must legally set a balanced budget for 2021/22 within the financial resources it will have next year. Cabinet will review the proposals and the MTFS at this meeting on 23 February 2021, before making a final recommendation to Council on 3 March 2021.

## 8. REASON FOR THE RECOMMENDATION

- 8.1 The Council must set a lawful and balanced budget. The approach outlined in this report work towards this requirement.

## 9. ALTERNATIVE OPTIONS CONSIDERED

- 9.1 No alternative option has been considered as the Cabinet is responsible under the constitution for initiating budget proposals and the Council is statutorily obliged to set a lawful and balanced budget by 11 March annually.

## **10. IMPLICATIONS**

### **Elected Members**

- 10.1 Members must have regard to the advice of the Chief Financial (Section 151) Officer. The Council may take decisions which are at variance with this advice, providing there are reasonable grounds to do so.
- 10.2 Section 106 of the Local Government Finance Act 1992 applies whereby it is an offence for any Members with arrears of council tax which have been outstanding for two months or more to attend any meeting of the Council or its committees at which a decision affecting the budget is made, unless the Members concerned declare at the outset of the meeting they are in arrears and will not be voting on the decision for that reason.

### **Legal Implications**

- 10.3 In terms of the Council's executive arrangements, the adoption of the Council's Budget is a role shared between the Cabinet and the Council, whereby the Cabinet (Leader) is responsible for formulating the budget proposals and full Council is responsible for then approving (or not) those proposals and setting the budget and council tax requirement.
- 10.4 For the remainder of the year, the principal purpose of the Budget is to set the upper limits of what the executive (Leader, Cabinet or officer under delegated executive authority) may decide to spend the Council's resources on. The Council cannot through the budget overrule an executive decision as to how to spend money, but the Budget will require the Cabinet to exercise their responsibilities for decision making so as not to make a decision where they are 'minded to determine the matter contrary to, or not wholly in accordance with the authorities budget'. This means that a decision that leads to excess expenditure, a virement from one budget heading to another over the amount allowed by Council in the Budget Book or expenditure of unexpected new money outside the Budget is required to have approval of the Council before the Leader and the Cabinet can make that decision.
- 10.5 The principle of fairness applies to consultation on the budget proposals, both consultation required under s65 of the Local Government Finance Act 1992 and more generally as proposed here, which operates as a set of rules of law. These rules are that:
- Consultation must be at a time when proposals are still at a formative stage;
  - The proposer must give sufficient reasons for any proposal to permit intelligent consideration and response;
  - Adequate time must be given for consideration and response; and
  - The product of consultation must be conscientiously taken into account in finalising any statutory proposals.
- 10.6 Added to which are two further principles that allow for variation in the form of consultation which are:
- The degree of specificity with which, in fairness, the public authority should conduct its consultation exercise may be influenced by the identity of those whom it is consulting; and
  - The demands of fairness are likely to be somewhat higher when an authority contemplates depriving someone of an existing benefit or advantage than when the claimant is a bare application for a future benefit.
- 10.7 It should be noted that the consultation to be undertaken as a result of this report is on the Budget proposals, and consequently the Cabinet's general approach to the savings requirements, and not on the various decisions to take whatever actions that may be implicit in the proposals and later adoption of that budget, each of which may or may not require their own consultation process.
- 10.8 By virtue of section 25, Local Government Act 2003, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance Officer (CFO), as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence that the financial position continues to be closely monitored. In particular, Members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered and that new expenditure is

contained within the available resources. Accordingly, any proposals put forward must identify the realistic measures and mechanisms to produce those savings.

Where the CFO makes a judgement that the council is unable to set or achieve a balanced budget, or there is an imminent prospect of this they have a responsibility to issue a section 114 notice (s114) of the Local Government Act 1988.

Once a s114 notice has been served the council has 21 days to meet and consider the report. During the 21 days the council must not incur any new expenditure unless the CFO has specifically authorised the spend.

This suspension of spending will trigger external scrutiny from the council's auditors. However, failure to act when necessary could result in the council losing its financial independence with its powers potentially passed to commissioners appointed by government.

### **Modifications to the Guidance**

In June 2020, the Chartered Institute of Public Finance and Accountancy (CIPFA) confirmed amendments to the guidelines in wake of the C-19 pandemic to allow Councils under budgetary pressure as a result of the pandemic time and space to explore alternatives to freezing spending via issuing a s114 notice.

The temporary modifications to guidance proposed by CIPFA would mean that it should not normally be necessary for a s114 notice to be issued while informal discussions with government are in progress. The modifications include the following two additional steps:

- At the earliest possible stage, a CFO should make informal confidential contact with MHCLG to advise of financial concerns and a possible forthcoming s114 requirement.
- The CFO should communicate the potential unbalanced budget position due to C-19 to MHCLG at the same time as providing a potential a s114 scenario report to the Cabinet and the external auditor.

### **Human Resources**

- 10.9 In order to deliver Phase Two of the budget, it is anticipated that there will be less than 5 FTE reductions. It is always the aim of the Council to try and minimise compulsory redundancies and the impact on our service delivery. This will be achieved, wherever possible, by seeking redeployment opportunities, the deletion of vacant posts, restrictions on recruitment (considering service delivery), natural wastage / turnover and reducing or eliminating overtime, (providing service delivery is not compromised). Where staff are affected, the Council will seek voluntary redundancies as appropriate to minimise compulsory redundancies and where this is unavoidable, appropriate outplacement support will be considered.

### **Equality Impact Assessments**

- 10.10 All budget proposals published in Phase Two of the budget process have been considered with regards to equalities issues. There are no equalities implications arising from the recommendations in the report.

### **10.11 Carbon Impact Assessments**

All budget proposals published in Phase Two of the budget process have been considered with regards to the carbon impact and where appropriate carbon impact assessments have been completed. These have been included within Appendix J – Carbon Impact Assessments of the main report.

## **11. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

11.1 None

**12. APPENDICES**

12.1 [Appendix 1- Medium Term financial Strategy 2021/22-2023/24](#)