



Report to: Policy and Resources Committee, 9th February 2021

Report of: Corporate Director, Finance and Resources

Subject: PROPOSED BUDGET 2021/22 AND MEDIUM-TERM FINANCIAL PLAN 2021/22 – 2025/26

1. Recommendation

1.1 That the Committee endorses the proposed Budget and Council Tax for 2021/22 and the proposed Medium-Term Financial Plan for the next five year period 2021/22 – 2025/26, and recommends them to Full Council on 23 February 2021 including the following resolutions:

- a. That the Budget Requirement for Worcester City Council (excluding Parish Precepts) 2021/22 be set at £11.975m;**
- b. That the Council Tax Requirement for Worcester City Council (excluding Parish Precepts) 2021/22 be set at £6.292m; and**
- c. That the Band D Council Tax for Worcester City Council (excluding Parish Precepts) be set at £195.88;**

1.2 That the Committee approves the Treasury Management Strategy at Appendix 5 including the MRP policy statement and the prudential indicators set out in the Strategy; (*Appendix 5 to follow*)

1.3 That the Committee approves the transfer of £712,000 from the Risk reserves to the 2021/22 revenue budget to mitigate the estimated loss of income due to the pandemic and to transfer a further £305,000 to the City Plan Fund to eliminate the deficit in its funding; and

1.4 That the Committee considers the proposals brought forward by the Policy Committees during January 2021 and includes those approved in the recommendations to Full Council.

2. Background

2.1 At its meeting of 15 December 2020, the Committee endorsed a high level medium term financial forecast to provide the financial framework for the detailed draft budget for 2021/22 and the medium term financial plan (MTFP) for 2021/22 to 2025/26.

2.2 The key priority for the Council is to set a balanced budget for the next financial year, which is achievable, sustainable, able to withstand financial pressures and can deliver the following outcomes:

- i. a budget for 2021/22, which safeguards Council services through a combination of cost management and income generation to enable the Council to deliver its service requirements in support of the City Plan;**

- ii. continued investment to deliver the agreed cross-party City Plan objectives;
- iii. further investment in the capital infrastructure of the Council to ensure good quality service delivery;
- iv. minimal reliance on the use of general fund balances to achieve a balanced budget, with general fund balances maintained at a minimum of £1.1m to meet unforeseen risks;
- v. continuous improvement in value for money and customer focus, working with staff and our partners to deliver the best possible outcomes.

In addition, the five-year horizon of the MTFP provides a projection for the Council's finances based on current assumptions and the external financial environment. Although not a balanced budget for each of the future years, it quantifies the size of the financial challenge that the Council faces.

Key Financial Assumptions

- 2.3 The preparation of a five-year MTFP, considered by the Committee at its meeting of 15 December, was based on a number of working assumptions, as follows:
- i. Council Tax Base (dwellings) a reduction of 0.4% in 2021/22 and 0.5% p.a. growth thereafter;
 - ii. No price increases to car parking charges;
 - iii. Business rates inflationary increases rising from 0.5% in 2021/22 to 2.0% per annum from 2022/23 to 2025/26. The multiplier is being frozen for 2021/22 but councils will be compensated through a S31 grant;
 - iv. Inclusion of all of NHB grant allocation each year to support service delivery;
 - v. Council Tax model increases of £5.00 at Band D equivalent;
 - vi. Interest rates receivable forecast in 2021/22 of 0.05% with the rate gradually increasing to 0.1% by 2025/26, in line with advice provided by our Treasury Advisers;
 - vii. A continuing investment of £3m in Property Funds at an estimated return of 4.0% generating interest receivable of £120k.
 - viii. The annual back-funding charge for the Pension Fund is maintained at £1.0m and the pension forward funding rate is increased from 17.5% to 18.2% to now include the estimated cost of the judgement in the McCloud case which requires the removal of any age discrimination from the LGPS pension;
 - ix. An assumed pay award of 2.0% p.a. for 2021/22, subject to maintaining the differential created by the Council's pay freeze in 2014, and maintaining the adoption of the National Living Wage. Subsequent annual pay awards of 2% p.a.;
 - x. Selective prices inflation at an average 2.0% to reflect contractual commitments and price risk areas;
 - xi. Continuing with the 'MTFP Income and Efficiency Plan' with a number new initiatives added.

Financial Assumptions	2021/22	2022/23	2023/24	2024/25	2025/26
Council Tax Base increase %	(0.37)%	0.5%	0.5%	0.5%	0.5%
Council Tax £5.00 increase	2.55%	2.49%	2.43%	2.37%	2.32%
Business Rates inflation	0.5%	1.5%	2.0%	2.0%	2.0%
Interest rates (receivable)	0.01%	0.03%	0.05%	0.1%	0.1%
Salary inflation	2.0%	2.0%	2.0%	2.0%	2.0%
Non-pay inflation (average/selected items)	1.75%	2.0%	2.0%	2.0%	2.0%

- 2.4 A number of proposals contained in the draft budget are subject to further agreement and, in some cases, have not yet been allowed for in budgets. These are set out in the following paragraphs.

Pay awards

- 2.5 Negotiations are underway with national employers and employee organisations concerning pay awards and are unlikely to be resolved before 1 April. The Government has indicated that it expects public sector pay awards for 2021 to be at or close to zero. The view of the Local Government Employers' associations is that this is unlikely to be achievable for local government and a rise of 2% has therefore been included in the budget.

Covid-19 Pandemic

- 2.6 The pandemic and its effect on the local economy have had a significant impact on the Council's income, particularly from car parking. The budget assumes that car parking revenue will be 70% of the average of the previous 3 years in the first half of 2021/22 and 90% in the second half-year. This represents a reduction of £600k which it is proposed to fund by a transfer from the Risk reserves, see para 1.3.
- 2.7 During 2020/21 the Government has provided a scheme to compensate councils for 75% of 95% of the locally generated income they have lost as a result of the pandemic. It has been announced that this will continue for Q1 of 2021/22. This will provide a contingency for the risk that the Council's other services, e.g. Trade Waste collection, may not achieve the full budget in Q1.
- 2.8 The pandemic has also had a significant effect on the Council's Leisure Service, with the leisure centres closed for some of 2020/21 and with reduced membership when they were open. The budget for 2021/22 assumes a return to normal operations and the receipt of the full management fee of £0.45m. In the event that this is not possible, the Government's scheme noted above, will provide some mitigation in Q1. In addition, the budget makes provision for the amount that the Council would not recover in Q1 with the 75% compensation scheme only covering a portion of the lost income.

Bereavement Services

- 2.9 In 2018-19 the budgeted income for Bereavement Services was £1.83m, which was achieved. However, in December 2018, the new crematorium at Fladbury opened, which diverted business away from Astwood, particularly from those who live in or near Pershore. The budget for 2021/22 has been reduced to £1.59m in line with the current level of income. This has been mitigated for 2021/22 by a transfer of £150k from the Risk reserves, see para 1.3.

Income and Efficiency Plan

- 2.10 The Council adopted an Income and Efficiency Plan in 2019 and over the last two years has been implementing the various initiatives. With most of the actions completed and with the Council facing a considerable budget deficit in 2022/23, a new Income and Efficiency Plan has been compiled by the managers and directors of each of the Council's services.

2.11 The plan targets cost reductions and increases in income of £971k over the next three years to 2023/24, with £712k of this arising in 2021/22, as set out in Table 1.

Table 1: Income and efficiencies Plan 2021/22 – 2023/24

Income and Efficiencies Plan 2021/22 to 2023/24	Environment Committee	Communities Committee	Place and Economic Development Sub-committee	Policy and Resources Committee	Total £'000
Staff restructure	186	178	134	158	656
Income growth (above inflation)	115	29	0	15	159
Service efficiencies	31	29	0	96	156
	332	236	134	269	971

The Plan includes cost reductions targeted from staffing restructures. A number of restructure proposals are under consideration pending the outcome of the voluntary redundancy exercise. Posts that are currently vacant and which may be affected by these proposals are being held vacant until that process is complete and any new positions can be recruited to. The split in the plan by committee and council service are only broad estimates of where these reductions may be achieved.

The remainder of the plan is based on achieving income growth above inflation in specific targeted areas and further service efficiencies. These are detailed in **Appendix 2** both for this committee and the other policy committees.

County-wide collaboration

2.12 The City Council seeks to work closely with neighbouring councils and the County Council where there are benefits to be derived. There are two main areas of focus: collaboration on business rates retention and collaboration on service delivery.

2.13 Councils across Worcestershire were successful in 2019 with a bid to pilot 75% business rates retention one year in advance of the Government's proposed plans to roll this out to all councils. However, the decision to roll out 75% business rates retention was postponed until 2021/22 and has now been postponed again. As a result, for 2020/21 the Worcestershire Business Rates Pool reverted to a 50% scheme but with a wider pool of participants, including Malvern Hills and, for the first time the Fire and Rescue Authority. This has had no direct impact on the district councils' income from business rates as all additional funding derived from the 75% retention pilot (approximately £4.9m) was set aside to support county-wide projects to increase spending on Adult Social Care. For 2021/22 the City Council has agreed to remain part of the Business Rates Pool with membership continuing to provide a net benefit to the Council.

2.14 In respect of collaboration on service delivery, the City Council participates in several shared services with other local councils that provide considerable economies of scale. In respect of the County Council, it was agreed, in 2019, that the City Council would contribute £157,000 per annum to the costs of delivering library services across the three sites in the city to support their community benefit and this has

been retained in the annual budget for 2021/22. The MTFP assumes no changes in the collaboration on service delivery.

Community activities (WCT)

- 2.15 The budget for 2021/22 includes a grant to Worcester Communities Trust of £77,000 for the management and maintenance of the Council's community centres, with an annual increase in respect of inflation. The budget for 2018/19 also included a further £85,000 provision in support of the Trust's continuing activities at the centres. This has been reduced each year and the remaining £21,000 has now been reduced to zero for 2021/22.
- 2.16 A five-year business plan was adopted by WCT in 2018/19 and clear and positive progress has been made by WCT officers to ensure the long-term sustainability of the organisation. If all business plan objectives are achieved, then the only funding WCT anticipates needing from the Council is the £72,000 p.a. which is a contractual commitment set out in the Service Agreement with the Trust, subject to annual inflation increases.

Tennis in the parks

- 2.17 The operation of the new tennis courts has been handed over to Freedom Leisure as part of their contract to provide the Council's leisure services. No allowance has been made for revenue income in this budget.

Members' allowances

- 2.18 The Independent Remuneration Panel has reviewed Members allowances and a report of its findings is currently being prepared. A proposal will be presented to Full Council at its meeting of 30 March. Sufficient allowance has been made in the budget and MTFP for the recommendation of the Committee and budgets will be revised following the decision of Full Council.

Additional proposals

- 2.19 Subsequent to the meeting of 15 December, the draft budget proposals have been revised in the light of:
- The provisional Local Government Finance Settlement published on 17 December 2020
 - Further financial information
 - Consultation with the public.
- 2.20 Proposals brought forward to the Environment Committee, Communities Committee and the Place and Economic Development Sub-committee have also been received. These are presented for consideration by this Committee elsewhere on the agenda and include considerations of the financial impact on the budget and MTFP summarised at **Appendix 1**.

3. Provisional Financial Settlement

- 3.1 The provisional financial settlement confirmed that there are no changes from expected baseline funding allowances for Business Rates. The Minister also confirmed

that the delayed review of Local Government funding and a proposal for Councils to retain 75% of business rates (compared to 50% at present) will now be carried out during 2021. No agreement has yet been made on how any additional resources resulting from this change will be distributed in two-tier areas, beyond the pilot arrangements identified above. Therefore, no assumptions have been made about income growth from 2021/22 onwards. Further considerations in respect of this are covered in the *Risk Implications* section below.

- 3.2 The latest award of New Homes bonus (NHB) was confirmed as a one-year settlement only and no change was made to the 0.4% minimum requirement for housing growth to qualify for New Homes Bonus. The MTFP includes legacy payments from prior years but assumes no additional new payments being earned. Previously the MTFP assumed new income of circa £150k p.a. However, the number of new homes built in recent years does not support such an assumption.
- 3.3 The Government has also confirmed that this will be the final year of New Homes Bonus. Previously it has said that it will be replaced by a new, more targeted approach that rewards local authorities where they are ambitious in delivering new homes, and which is aligned with other measures around planning performance.
- 3.4 Lower Tier Services Grant – this is a new grant which is designed to ensure that there is an increase in Core Spending Power for all councils. This is to help compensate for the impact of the unwinding of NHB so could reflect intentions going forward as a return to a form of Revenue Support Grant. There has been no formal notification as yet, but the figures indicate that this will be around £300,000 as a one-off grant and this is included in the MTFP.
- 3.5 The 2020/21 settlement allows for a maximum of a 2.0% or £5.00 increase in Council Tax, whichever is greater, without the requirement to hold a referendum. The proposed budget includes an expected increase of £5.00 for Council Tax in line with this maximum allowance. This, taken together with the 0.4% decrease in the Council Tax base set by the Committee at its meeting of 15 December 2020, results in an overall increase of £142k over 2020/21.
- 3.6 During 2020/21 the Government has made a number of supplementary grant payments to mitigate the effects of the pandemic on the Council's finances, through increased spending requirements and loss of income. Previously it was assumed that this would apply to 2020/21 only. However, as part of the Settlement it was confirmed that an extra tranche would be paid for 2021/22. For this council this will be £563k and this is included in the MTFP.
- 3.7 As part of the budget settlement the Chancellor indicated that he expects to see no pay increase for local government in 2021/22. However, the Local Government employers' associations, which make recommendations to councils on pay increases, are independent of Government and may not accept this recommendation. In light of the longer-term outlook for local government funding underpinning the settlement, the assumption of a pay award of 2% p.a. across all four years of the MTFP from 2021/22 has been retained.
- 3.8 The overall impact of the settlement, taking into account all other matters, is to produce an expected budget surplus of £38,000, which is to be transferred to reserves to offset the impact of expected income losses, see para 1.3.

4. **Further financial information**

- 4.1 Alongside the consultation and budget-setting processes between October and January, estimates for the year have been subject to further review. The following changes have been incorporated into the budgets and are proposed for approval:
- variances in the Income and Efficiency Plan agreed in consultation with Members;
 - amendments to the Capital Programme and the associated MRP charge as noted in para 6.2.
- 4.2 The changes are summarised in Table 2 below showing revisions to the Forecast Net Budget presented to the Committee on 15 December 2020. A full version of the MTFP is provided at **Appendix 1** and the Income and Efficiency Plan is provided at **Appendix 2**. A summary of the revenue budgets for the services that fall under the remit of this committee are shown at **Appendix 4**.

Table 2: proposed budget changes since 15 December 2020

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Forecast Net Budget – Dec 2020	11,857	11,388	11,813	12,352	12,993
Amendments to Income and Efficiency Plan	60	60	60	60	60
Cost inflation reduced to 1.75%	(17)	(17)	(17)	(17)	(17)
Leisure Mgt. Fee - Q1 contingency	30				
Commercial property maintenance	35	35	35	35	35
Increase in-house Payroll resource	12	12	12	12	12
Other – net impact of various minor adjustments (rounded)	(2)	1	2	2	2
Revised Forecast Net Budget ⁽¹⁾	11,975	11,480	11,905	12,444	13,085

Note (1): Differences within £2k are due to rounding

5. **Budget consultation and development**

- 5.1 Opportunities for stakeholders to contribute to the budget-setting process followed the same process as the 2020/21 budget, through three activities:
- public consultation
 - all-member presentation in September 2020
 - scrutiny of existing budgets in October and December 2020 and formal submissions for budget votes from the Environment and Communities Committees and the Place and Economic Development Sub-committee in January 2021.
- 5.2 Consultation with the public and local businesses was in the form of an online survey, with hard copies available for those who did not have internet access. 526 responses were received, along with 21 hard copies. Questions related to areas of spend but also sought views on the relative priority that residents and businesses place on the Council's objectives and on satisfaction with services received. There were additional questions designed to shape Covid-19 recovery strategies which

were included on behalf of the County Council as part of county-wide information gathering.

- 5.3 A detailed report on the responses received is included elsewhere on the agenda. In respect of questions relating specifically to budget consultation, consultees were asked about the current level of spending on services, and whether this should be revised, and about the level of fees and charges set for specific service provision.
- 5.4 The services with the highest percentage of responses to increase spending were similar to 2019. These are:
- Making Worcester a city where residents and visitors feel safe;
 - Support for Housing and Homelessness;
 - 'Supporting local businesses and getting people back to work' replaced 'Promoting the city as a place to visit and invest';

The responses are likely to have been influenced by perception of need for these services following the Covid-19 pandemic.

- 5.5 During 2019/20 the contract for the provision of homelessness support was re-let and two buildings were obtained by the Council to increase the level of short-term accommodation available within the City. This has provided short term accommodation to keep at-risk families housed while longer-term suitable accommodation is secured and avoided the council needing to use more expensive third-party accommodation. The budget includes £500k in the Capital Programme to expand this provision. There will also be continuation of DWAS funding to help people with low income moving into their home, further financial support to the Foodbank and the use of a Hardship Fund to help those struggling with Council Tax and Universal Credit.
- 5.6 During 2021/22 there will be continued investment of up to £4.7m in the City as a place to visit through the Worcester Arches project and the related series of festivals. In addition, the Council has received £17.9m from the Government's Future High Streets Fund. Along with the Council's own investment, the various projects will see £29m invested in regeneration of the northern part of the city centre.
- 5.7 The Council has also submitted a bid for £28m from the Government's Towns Fund which, if successful, will attract further substantial capital for investment in the City.
- 5.8 A schedule of revised fees and charges was considered and agreed by the Income Generation Sub-committee at its meeting of 28 January, along with financial implications. The majority of charges were increased in line with inflation with some additional increases to reflect revised costs, changes in the market place and alignment with competitors. In line with the feedback from the survey, there were no increases proposed in respect of car park charges. The report of the Income Generation Sub-committee is presented elsewhere on the agenda for recommendation to Full Council as part of the budget-setting process.
- 5.9 During January, the Environment Committee, Communities Committee and Place and Economic Development Sub-committee considered potential changes to the budget estimates previously reviewed by each committee at its meeting in October and by the Policy and Resources Committee in November. Proposals received from the other policy committees are presented elsewhere on the agenda for consideration.

6. **Capital Programme 2021/22 to 2025/26**

- 6.1 An overall capital programme of £44.750m is proposed and is shown in **Appendix 3**. This compares to a programme of £29.699m previously proposed for 2020/21 to 2025/26.
- 6.2 The draft budget for 2021/22 presented to this committee on 15 December 2020 included a capital programme of £20.968m. This has now been revised to £24.967m and includes:
- Amounts deferred from 2020/21 of £3.738m in respect of the Worcester Arches project £0.838m, Sansome Walk £0.800m and the loan for the Hockey development £2.100m;
 - Future High Streets Fund, following confirmation of the grant approval and the timing of the various projects, an additional £0.400m;
- 6.3 The programme includes items that have been reported at previous committees, subject to changes set out in section 2 of this report which are yet to be incorporated pending further decisions. Major additions to the capital programme for 2021/22 are shown in Table 3.
- 6.4 The most significant change to the programme from last year is the inclusion of the Future High Streets Fund. This is a total capital spend of £28.026m plus £1.065m already forecast for 2020/21. This will facilitate a major regeneration of the northern part of the city centre around Angel Place.

Table 3: additions to five year capital programme

	2021/22		Expected Total 2021/22 to 2025/26
	Previous programme Feb 2020	Revised programme Feb 2021	
	£000	£000	£000
Future High Streets Fund	0	16,820	28,026
Arches project	625	1,397	1,397
Vehicle Replacement Programme	553	913	4,381
Wheeled bin replacement	50	150	750
ICT infrastructure	100	220	620
Property Plan (other capital projects)	68	163	218

- 6.5 In addition, an allowance has been made in the capital programme for the development of facilities for food waste collection. This is expected to be a requirement under the Environment Bill which has reached Report Stage in the House of Commons and has been allowed for based on estimates made by the relevant officers. The Department for the Environment, Food and Rural Affairs (DeFRA) has received £0.6bn additional funding to implement this proposal and it is assumed therefore that the scheme will be funded by capital grant.
- 6.6 The capital programme is funded from a mixture of capital grants, capital receipts, use of reserves including S106 reserves, direct revenue funding or borrowing. In line with the Capital and Asset Management Framework, borrowing is not taken out

unless other forms of funding are not available. Internal borrowing will be used in preference to external borrowing while the value of income from interest in investments remains below the cost of borrowing and there are sufficient reserves to enable funds to be released for capital purposes. Capital receipts are only recognised once they have been received and future receipts could therefore reduce the need for external borrowing. The proposed funding for the capital programme is shown in Table 4. The full programme is provided at **Appendix 3**.

Table 4: Proposed capital funding 2020/21 to 2024/25

Financing Source	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2021-26 £000
External Grants S106	11,783	6,164	3,186	688	688	22,507
Contributions Earmarked	0	0	0	0	0	0
Reserves	701	0	0	0	0	701
Capital Receipts	2,120	305	250	250	250	3,175
Revenue Financing	0	0	0	0	0	0
Borrowing	10,363	3,791	1,616	1,541	1,056	18,367
TOTAL	24,967	10,259	5,052	2,479	1,994	44,750

- 6.7 The revenue implications of the capital financing proposals are reported to the Committee in the Treasury Management Strategy Statement 2021/22, which is included as **Appendix 5** to this report. These implications have been incorporated into the MTFP, including the changes noted above. The Treasury Management Strategy Statement also provides indicators to demonstrate that the Council is not borrowing in excess of its needs and, through a 'liability benchmark', is not borrowing where other cash resources are available.
- 6.8 The Capital and Investment strategies adopted by the Council were introduced in 2019 in line with the new regulations and by the revised Prudential Code on Capital Accounting published by CIPFA in February 2018. These will be updated for 2021/22 and detail the strategic approach to borrowing and investment of the Council in the coming year and over the lifetime of the MTFP. They will be presented to this committee at the meeting in March.
- 7. Impact on reserves**
- 7.1 The Council's policy is to maintain a minimum of £1.1m in General reserves. The overarching principle of the budget-setting process is that this level of reserves should be maintained over the lifetime of the MTFP.
- 7.2 The Council also holds a number of Risk Reserves to mitigate the impact of an unexpected financial downturn or increased unplanned spend arising from circumstances outside of the Council's control. At 31 March 2020 these reserves had a balance of £4.574m, and £0.4m is expected to be utilised to mitigate the anticipated year end deficit for 2020/21 leaving a balance to carry forward of £4.154m.

7.3 The budget deficits projected for the years 2022/23 onwards, as shown on **Appendix 1**, mean that the minimum level of £1.1m of General Reserves, noted above, will not be maintained. During 2021/22 the Council will therefore need to increase its income and/or generate cost reductions to enable a balanced budget to be set for 2022/23 onwards. These changes may be derived through various means including developing existing income streams, generating new sources of income and reducing the cost base through more efficient ways of operating, or from additional Government funding.

City Plan Fund

7.4 The policy committees have reviewed various new budget proposals. Those that are considered appropriate have been forwarded to this Committee for further consideration and are presented elsewhere on the agenda.

7.5 The committee is asked to review the various proposals and determine which should be recommended to Council for approval in the MTFP 2021-2026, and identify the relevant reserves, if any, to be used.

7.6 The level of projected earmarked reserves is shown in Table 5. The City Plan Fund remains underfunded by £305k and, with no further receipt of New Homes Bonus expected, it is proposed to make a transfer from the Risk reserves to remove this deficit.

Table 5: Projected earmarked reserves at 31 March 2021

Reserve	Balance at 31 March 2020 £000's	Transfer to Reserves £000's	Transfer from Reserves £000's	Reclassifications between Reserves £000's	Forecast Balance at 31 March 2021 £000's	Uncommitted Reserves £000's
TRANSFORMATION FUND	785	0	(171)	0	613	431
INCOME GENERATION FUND	324	0	(121)	0	203	71
SERVICE SPECIFIC EARMARKED RESERVES	3,765	587	(1,426)	(153)	2,774	0
SMALL PROJECTS DEVELOPMENT FUND	80	0	(14)	0	66	0
CITY PLAN FUND	3,118	88	(988)	0	2,217	(306)
RISKS FUND	4,574	0	(420)	0	4,154	4,154
MUSEUM RESERVE	188	0	(17)	0	171	0
TOTAL RESERVES	12,835	675	(3,157)	(153)	10,200	4,351

8. Preferred Option

8.1 That the Committee recommends to Council the budget proposals set out in this report.

9. Alternative Options Considered

9.1 Alternative budget proposals have been considered by the policy committees of the Council and are presented to the Committee for consideration elsewhere on the agenda.

10. Implications

10.1 Financial and Budgetary Implications

As detailed in **Appendix 1**, the draft budget proposes a transfer from earmarked reserves of £712k which will result in a balanced budget for 2021/22.

10.2 Legal and Governance Implications

There are no legal and governance implications arising directly from this report.

10.3 Risk Implications

Achievement of the proposed budget is dependent on the relevant assumptions proving accurate and no unexpected changes in anticipated funding levels. In the opinion of the Section 151 officer the budget estimates are considered to be robust and, in the event that unforeseen incidents occur which require additional resources, there remain sufficient general reserves to meet these requirements.

In terms of future financial planning, as expressed in the MTFP, estimates for later years are always subject to a degree of risk. In particular, the financial settlement for 2021/22 confirmed that the reviews of funding of local government and business rates retention are still to go ahead. The New Homes Bonus is also to be replaced and the level of funding that this will provide is, as yet, unknown.

Covid-19 pandemic

The pandemic has had a significant effect on the Council's operations and its finances. The Government has provided a large amount of one-off funding such that 2021/22 is forecast to have a budget deficit of only £0.4m. Furthermore, the Government has committed an additional tranche of Covid-19 grant funding for 2021/22. For this council this amounts to £563k.

The budget proposed by the City Council for 2022/23 includes the grant noted above and assumes that conditions will have largely returned to normal, specifically;

- Loss of locally generated income – the budget assumes all income streams, with the exception of car parking, achieve the level expected pre-pandemic. The Government has extended the 75% income compensation scheme to include Q1 of 2021/22, which provides some mitigation. However, if the pandemic restrictions continue into Q2 and beyond, the income budgets are unlikely to be achieved.
- Council Tax and Business Rates collection rates – it is currently not clear how the pandemic will affect the 2020/21 collections. Although the year to date recovery levels are below last year, this may improve as the year end approaches and lockdown restrictions ease. The 2021/22 budget assumes the collection rate is in line with previous years. If this is not the case, payments could still be collected in future years. Ultimately a 1% reduction in the amount collected represents a loss to this council of £0.2m.
- Homelessness and rough sleepers – the Government instructed all councils to find accommodation for rough sleepers during the pandemic. For this council

this has cost £0.5m which has been funded through Government grant, as above. The budget assumes that this will not continue beyond 31 March 2020 or that continued costs will be met by additional Government grant.

- Business Rates valuation appeals – the Council has seen a significant increase in the number of appeals against property valuations being lodged, citing a 'material change in circumstances' as a result of the economic effects of the pandemic. If these were to be successful, there could be a significant impact on the Council's finances. The Government has recognised this and is considering whether such claims should be allowed and/or mitigated through financial support through Section 31 grants to Councils. However, it is necessary for the Council to retain sufficient reserves to mitigate this risk.

Fair Funding

Changes in the national economy including Brexit and the Covid-19 pandemic have delayed the Government's publication of the Fair Funding review. However, MHCLG has confirmed that this is still in hand and good progress is now being made.

The original consultation document set out the means by which the department will determine the relative needs of each local authority within the overall funding available for local government from 2022/23. This is important as it will determine the level of Council Tax that local authorities will be able to raise without a referendum and the amount of business rates collected to be retained by each billing authority.

The consultation proposed increasing the value of sparsity and rurality factors, reducing allowances for deprivation and changing the balance of area cost adjustments which reflect the high cost of wages, goods and services in some areas of the country. Each of these changes will tend to be to the disadvantage of urban district councils outside the South East, such as Worcester City.

The consultation document also considered taking other sources of income into account when assessing the relative needs of individual councils. The document included the following statements:

'...the Government recognises that there are practical challenges in taking a direct account of sales, fees and charges income through the resources adjustment and we are therefore broadly minded not to do so.

'However, there may be a case for taking specific service areas into account which have generated an increasingly significant level of surplus income for some authorities, such as on and off-street parking.'

The Council has budgeted income of approximately £3.6m from off-street car parking each year. It is not clear how much, if any, of this will be taken into account in assessing the Council's relative needs under the new funding arrangements.

Business rates retention

As part of the 2021/22 settlement, MHCLG confirmed that there will still be a full business rates reset, but with the implementation date yet to be decided. This means that any growth achieved since the needs assessment was first made in

2013/14 is at risk of being included in the tariff. Since 2013 the Council has achieved business rates growth of £733k per annum above its baseline assessment. This sum is at risk. A risk reserve of a minimum of £0.750m has been established to help mitigate this risk should it arise. Following the transfer of existing risk reserves within the Business Rates Pool at the 2019/20 outturn, there is a forecast balance at 31 March 2021 of £3.518m on this reserve.

New Homes Bonus

As part of the 2021/22 Settlement the Minister advised that this is the last year of New Homes Bonus awards. It had previously been said that it will be replaced by a new, more targeted approach that rewards local authorities where they are ambitious in delivering new homes, and which is aligned with other measures around planning performance. The MTFP does not reflect any new income from this source as the proposals are not yet clear.

Income risk

As a result of the withdrawal of Government Funding through the Revenue Support Grant, the Council is becoming increasingly reliant on income from services and investments to maintain its functions. In total, the Council has budgeted income for 2021/22 from fees and charges of £8.5m and £2.3m of Other Income, which includes property rental income. As a total of £10.8m, this is greater than the £10.0m that the Council generates from Council Tax and Business Rates taken together.

To mitigate the impact of reductions in income from fees and charges an Income Risk Reserve has been created. At 31 March 2020 this held the preferred balance of £0.5m. However, this is forecast to be nearly fully utilised during 2020/21 and will be replenished from the Business Rates Risk reserve.

The approach to mitigating risk in respect of investment activities is set out in the Capital Strategy and Investment Strategy.

10.4 Corporate/Policy Implications

The City Plan requires a further £305k for it to be fully funded. It is proposed in the report to fund this deficit through a transfer from the Business Rates risk reserve. If this is not the case and, as the MTFP assumes that all future New Homes Bonus receipts are transferred to the Revenue Budget to fund Council services, the £305k gap would therefore need to be addressed in next year's MTFP.

10.5 Equality Implications

The budget proposals are designed to ensure the continuation of services to meet the needs of all residents of the City and other stakeholders in so far as available resources allow.

10.6 Human Resources Implications

Achievement of a balanced budget in future years may require reductions in posts over the 5 years of the MTFP. It is proposed to manage these through a combination

of vacancy management, reduction in use of agency staff, retraining and reskilling of staff and voluntary severance.

10.7 Health and Safety Implications

None arising directly from this report.

10.8 Social, Economic and Environmental Implications

The budget proposals have taken into account feedback from residents and local businesses and have been subject to scrutiny by Members and officers of the Council. No services will be reduced as a result of the budget proposals and there are commitments, as set out in section 5 where the Council, if the proposals are accepted, is committing to allocating funding from reserves to enhance local facilities, increasing funding in specific areas, and/or maintaining funding in areas where other agencies are no longer able to support services financially.

Further social, economic and environmental implications have been included in consideration of the individual proposals submitted to the relevant Policy Committees or to the Policy & Resources Committee that form the basis of changes to the budget between 2020/21 and 2021/22 and over the lifetime of the MTFP.

Ward(s): All Wards
Contact Officer: Shane Flynn – Corporate Director Finance and Resources.
shane.flynn@worcester.gov.uk. Tel: 01905 722536
Background Papers: None