



ST HELENS
BOROUGH COUNCIL

Cabinet

Wednesday 7 October 2020

Report Title:	Budget Strategy 2021-2022
Cabinet Portfolio	Finance & Governance
Cabinet Member	Councillor Martin Bond
Exempt Report	No
Reason for Exemption	Open
Key Decision	N
Public Notice issued	N/A
Wards Affected	All Wards
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Borough priorities Please mark X for any priority supported by this report NB Use Section 4 - Background Information to explain how each selected priority is supported	Ensure children and young people have a positive start in life	x
	Promote good health, independence and care across our communities	x
	Create safe and strong communities for our residents	x
	Support a strong, diverse and well-connected local economy	x
	Create a green, thriving and vibrant place to be proud of	x
	Be a modern, efficient and effective Council	x

1. Summary

Summary of key issues in the report

- 1.1 The report gives an update of the Council's forecast budget position, highlighting the assumptions used in arriving at the current forecast, and the uncertainties that exist in producing a financial forecast for future financial years.

2. Recommendations for Decision

Cabinet **is recommended to:**

- i) Note the financial position for the current financial year and the forecast budget gap for 2021-2022.
- ii) Approve the progression of budget proposals to address the underlying budget shortfall for 2021-2022; and
- iii) Approve emergency budget actions to address the budget shortfall in the current financial year.

3. Purpose of this Report

- 3.1 The purpose of the report is to inform Cabinet of the forecast budget position for the current and future financial years and to recommend the progression of budget proposals to address the underlying financial pressures.

4. Background / Reasons for the recommendations

- 4.1 In approving its 2020-2021 budget, Council agreed to a series of recommendations that included:

- the setting of a one-year only budget for 2020-2021, given the uncertainty of future year funding;

- a number of baseline budgets being 'reset' to recognise the increased demand led pressures (particularly in relation to social care) and specific pressures in some income generating areas;
- the application of £5m earmarked reserves to arrive at a level of £5m required savings for the 2020-2021 financial year; and
- the development and agreement of detailed portfolio budget options to deliver those savings in the form of income generation and reductions in service expenditure budgets.

In setting the budget it was recognised that the use of earmarked reserves and other items of one-off funding in balancing the budget was not sustainable and would need to be factored into future years' budget processes.

Clearly, the financial environment within which the Council operates already presented significant financial challenges, prior to the outbreak of the COVID-19 pandemic.

Providing additional support and facing significant reductions in revenue streams as a result of the pandemic has had a significant financial impact upon all local authorities, with the impact forecast to be felt over a sustained period, impacting upon both the current and future years' budgets.

The extent to which that impact will be felt remains highly uncertain given the number of variables and factors that apply, not least in the form of:

- ongoing and future restrictions / requirements
- levels and length of ongoing support from central government
- the extent to which the inevitable economic contraction caused by the pandemic will reduce income from Council Tax, Business Rates, sales, fees, charges, rents and investment income
- the additional levels of service demand placed on the authority
- additional expenditure incurred

At its meeting of 24 June 2020 Cabinet considered two financial reports and resolved to approve the progression of an Emergency Budget during 2020-2021 aligned with the Reset and Recovery phase of the Council's COVID-19 response, with all services included for review.

Budget Forecast 2020-2021

The Financial Monitoring Report considered by Cabinet provides detail of pressures on the Council's 2020-2021 budget for issue of a non-COVID-19 nature (NB there are a small number of 'grey areas' when considering the extent to which specific pressures are driven by COVID, other factors or a combination of both) and without actions to address them there are a number of these portfolio service pressures which will continue into 2021-2022.

In addition, pressures relating to Treasury Management investment returns on cash (due to the current interest rate environment) and delayed investment returns on anticipated loan advances will serve to add further pressures in excess of £1m.

It is critical, once again, to highlight that to arrive at the projected budget positions there are a number of significant assumptions made that have varying degrees of estimation and sensitivities attached to them.

Ongoing revisions are made as some matters become clearer, previously unanticipated issues arise and further funding announcements or statements are received, and these will be built into future budget models to be presented to Cabinet.

In the absence of any further COVID-19 Government support being provided in the current financial year the following projections are provided:

2020-2021 Current Projection

	Gross £ million	Funding £ million*	Net pressures £ million
COVID related Expenditure pressures	13.2	(16.3)	(3.1)
COVID related SFC pressures	5.0	(2.5)	2.5
COVID related Investment & commercial income pressures	2.5	-	2.5
Non COVID pressures reported in Financial Monitoring Report Period 2			1.3
TOTAL			3.2

* Funding consists of 3 tranches of Emergency Grant Funding, projected CCG contributions and forecast levels of Sales, Fees & Charges compensation.

4.2 Budget Gap and modelling principles / assumptions

At this stage, a forecast as to the size and shape of the ensuing budget gap is materially uncertain due to the impact of Covid-19 and clarity around the plans for future funding of local government.

- £13.2m Emergency Funding has been received from Government since March to meet 2019-2020 and 2020-2021 expenditure pressures over three tranches (see below), whilst work with the CCG continues to identify relevant costs for which health funding may be possible.

First Tranche of Covid-19 Funding	Second Tranche of Covid-19 Funding	Third Tranche of Covid-19 Funding	Total Covid-19 Additional Funding
£6,390,564	£4,973,235	£1,860,350	£13,224,149

- Assistance to reimburse the Council for 2020-2021 losses in income from sales, fees & charges (SFC) was announced by the Secretary of State on 2 July.

Guidance around the application of the SFC scheme has been received, though there does still remain some uncertainties around the application of elements of the published scheme to enable this to be fully and accurately quantified prior to completion and submission to MHCLG.

The guidance includes a requirement to net-off additional 'cost savings' to arrive at the compensation levels that would be payable by Government in respect of the SFC income losses and it is therefore estimated that level of compensation will be at approximately 50% of 2020-2021 SFC losses.

The SFC guidance makes it clear that assistance with commercial and investment income losses will not be provided by Government within that scheme. It is considered highly unlikely that alternative assistance will be forthcoming.

Council Tax and Business Rates

The impact on tax yield presents a significant risk to the Council as the economy enters recession and the levels of business failure are heightened – with a consequential loss in business rate income and probable higher levels of Local Council Tax Support as the furlough scheme ends and unemployment rises.

Support has been provided in 2020-2021 in the form of Hardship Funding for Council Taxpayers and extended Business Rate Reliefs for businesses operating in the Retail, Hospitality and Leisure sectors. It is anticipated that the non-continuation of these schemes beyond 2020-2021 will serve to exacerbate the pressures on the Council's Collection Fund, whilst the phased withdrawal of the Government's furlough support scheme for employers will likely have a more imminent (and ongoing) impact on levels of business survival.

The extent (if any) to which Government provides assistance for these Collection Fund losses is unclear, notwithstanding a previous announcement enabling local authorities to spread their tax deficits over three years rather than the usual one, as this does nothing to help reduce the size of the pressure.

Income losses

Projected income losses from SFC and rents are modelled with significant uncertainty attached to them as the full impact of restrictions and customer behaviour is yet to be determined and a potential further wave and local / regional / national lockdown of the virus remains. The projected income stream net losses that are particularly at risk of continued reductions include:

- Parking £0.5m
- Leisure Services £0.7m
- Rental income £0.4m

Expenditure pressures

Expenditure pressures are expected to continue into 2021-22. The model includes £1.2m provision for projected (3%) increases in supporting the adult care market arising from anticipated increases in cost of care attributable to COVID-19 (e.g. PPE and additional costs to cover for staff required to self-isolate). Provision is also allowed for additional costs from pay and general price inflation and those in relation to increases from application of the National Living Wage.

Assumptions also include an ongoing provision for the costs (£0.414m) arising from the previous decision to increase management and social work capacity in the Duty and Social Work Assessment teams (that decision having determined the funding for the initial 12 months period would come from the transformation reserve, with the permanent funding provision being reviewed as part of the medium term financial strategy). No further provision for additional costs in relation to Children Looked After or other additional expenditure commitments has been incorporated into the 2021-2022 model.

A £0.5m provision is included for service wide PPE requirements, whilst £0.250m has been allowed for in relation to additional costs associated with Home to School / College Transport. This is an area for which significant uncertainty exists and for which costs will be determined by interpretation and application of Government guidance and announcements around what Local Authorities need to do in respect of the service.

The impact of the pandemic on the Council's levying bodies (Merseytravel and MRWA) has been substantial and this may place potential pressures on their services and the levels of levy for 2021-2022, although this is currently uncertain.

Local Government Funding

The Comprehensive Spending Review was launched on 21 July 2020 and will be published in the autumn. Given the impact COVID-19 has had on the economy, the Chancellor has made clear there will need to be tough choices in areas of spending at the review and it remains to be seen how much funding is allocated for local government.

Notification of allocations for individual authorities will only be received some time after the Comprehensive Spending Review and, at this stage, the modelling assumes general funding support will continue at 2020-2021 levels, although this has yet to be confirmed. It has also been modelled for levels of support for social care via the Social Care Support Grant, Better Care Fund, Improved Better Care Fund etc. to remain at 2020-2021 levels.

The Government has previously announced that the implementation of changes to local government funding following the Fair Funding Review were to be postponed until 2021-2022. Given the current pandemic and financial pressures that authorities face, Government has delayed the implementation of the review for a further year, with implementation in 2022-2023 at the earliest. However, it remains to be seen whether this plan is further impacted by COVID-19.

Future modelling is based upon an assumed annual increase in Council Tax levels of 1.99%, plus an Adult Social Care Precept of 2% although there is no confirmation from government on the arrangements for next year. The level of Council Tax increase or decrease has a significant impact on available resources with a 1% increase or decrease resulting in a corresponding variation of £786k.

The government have announced that the planned reforms to the Business Rates Retention System for 2021-2022 are to be delayed and they will continue to work towards their aim to implement these reforms in 2022-2023. Consequently, modelling assumes that the core Business Rate Retention System will operate in its existing form for another year. Importantly, the model assumes that the Council will continue to receive 99% of its Business Rates under a continued Liverpool City Region Business Rates Retention Scheme. Any Government decision to revise the terms of the Business Rates arrangement could have further negative impact on the Council's financial position.

2021-2022 Current Projection

In the absence of any COVID-19 Government support being provided / continuing in to 2021-2022 and beyond, and when taking the above modelling assumptions and the Council's starting position into account, the following projections are provided:

	£ million
2020-2021 Budget funded by reserves carried forward	4.9
COVID-19 related Business Rates / Council Tax losses and reductions	7.8
Other COVID-19 related ongoing expenditure & income pressures	4.0
Ongoing reductions in investment returns	1.0
Other pressures continuing from 2020-2021	1.0
2020-2021 decisions with ongoing expenditure commitment	0.4
Levies	1.1
Other	0.2
TOTAL	20.4

In providing these projections, no further use of general or earmarked reserves (or one-off application of the available capital receipts flexibility) has been factored in. Quite clearly the Government has outlined its expectation that local authorities should be using their own available reserves and balances to supplement the level of Government financial support that has been provided in the COVID-19 response to date. However, on-going use of reserves to balance budgets pose a threat to the Councils financial sustainability as reserves become depleted. Additionally, reserves are earmarked for other purposes, particularly around growth and transformation, so use of reserves are critical in support of local investment and transformation.

From 2022-2023 onwards there is material uncertainty on how local authorities will be funded. These include delays of the fair funding review, business rates retention methodology redesign including potential changes to baselines and valuations, future funding plans for social care and changes to other grants.

In addition, the medium-term economic outlook is incredibly uncertain with significant impact on residents and businesses. These economic pressures in turn create a challenge for the Council in in terms of income and expenditure pressures. The impact of the UK's departure from the European Unit adds further uncertainty to the Councils financial position.

It is intended a new Medium-Term Financial Strategy will be presented to the Council at Budget Council in 2021 to outline in detail the risks, assumptions and future year budget forecasts.

4.3 Emergency Budget Actions

The Council will continue to lobby Government to provide a fair settlement and a Comprehensive Spending Review in the autumn that will reflect the extra financial burden which local authorities have been placed under. Without significant high-level intervention, and alongside the other material uncertainties that are highlighted, the position for 2021-2022 and beyond will be the most sizeable financial challenge the Council has ever experienced.

Alongside Liverpool City Region partner authorities, work has been undertaken to identify a significant number of 'asks' that are to be taken forward directly with MHCLG in the near future

that could provide some mitigation or easing of the pressures being faced. It is anticipated that this will be managed through the meetings of City Region Chief Executives.

4.4 Savings for 2021-22

Proposals are being developed to address the current forecast budget pressure for 2021-2022. The pressures faced by this Council are significant and the requirement to identify savings of £20.4m will require a major programme of savings to be delivered in a short period of time to allow the delivery of a balanced budget for 2021-2022.

There will be a need to review how all services are delivered to identify efficiencies and reduce the overall costs. This may involve changing how services are delivered or supported or driving change through technology or more efficient commissioning. These reviews may also suggest the cessation or reduction of some discretionary services or moving to provide minimum levels of statutory services. Although these may be challenging choices these actions will be essential to ensure the Council continues to provide vital front-line services.

It is inevitable given the scale of the challenges there will be potential implications for staffing resources and potential staffing reductions. Although this is always a last resort some difficult decisions may have to be made to meet the level of savings required.

5. Community Impact Assessment

The Community Impact Assessment identified the following key implications

- 5.1 Community Impact Assessments will be completed for each proposal that is progressed.

6 Consideration of Alternatives

- 6.1 Alternative budget proposals will be considered as part of the Budget setting process.

7 Conclusions

- 7.1 The Council faces serious financial challenges and actions are required to attempt to balance the budget in 2020-2021 and to address the forecast budget gap for 2021-2022.

8. Implications

8.1 Legal Implications

- 8.1.1 This report sets out the scale of savings required to present a balanced revenue budget for 2021-2022 which is a legal requirement for local authorities.

8.2 Community Impact Assessment (CIA) Implications

8.2.1 Social Value

- 8.2.1.1 Any future spending plans will consider social value and supporting the local economy

8.2.2 Sustainability and Environment

- 8.2.2.1 Any future spending plans will consider the direct and indirect environmental implication

8.2.3 Health and Wellbeing

8.2.3.1 Assessments will be undertaken, as necessary, for any decisions required to implement any spending plans that are proposed.

8.2.4 Equality and Human Rights

8.2.4.1 As part of the budget process, each service area will undertake some initial analysis of equalities and other legal implications of various proposals. Detailed equalities impact assessments will be undertaken for individual decisions as and when required to implement portfolio saving plan once these are brought forward.

8.3 Customers and Resident

8.3.1 Appropriate consultations will be carried out for any savings proposals where there are wider impacts on customers and residents.

8.4 Asset and Property

8.4.1 None

8.5 Staffing and Human Resource

8.5.1 Detailed human resources assessments will be undertaken, as necessary, for any appropriate spending plans.

8.6 Risks

8.6.1 This report sets out the scale of budget challenges for 2021-2022 and outlines the process to meet those challenges and present a balanced budget.

8.7 Finance

8.7.1 The financial implications are as set out in Section 4.2.

8.8 Policy Framework Implications

8.8.1 None

9. Background papers

9.1 None

10. Appendices

10.1 None