

Draft Budget Proposals 2021/22 (General Fund)

1. Introduction and Background

- 1.1 The updated Medium-Term Financial Plan (MTFP) 2021/22 to 2025/26 – which set the framework for developing draft 2021/22 budget proposals for the General Fund – was adopted by Cabinet on 16th November 2020.
- 1.2 The projection for 2021/22 in the MTFP revealed an underlying budget deficit of £4.1 million on the General Fund, which had emerged in the light of the Covid-19 pandemic. It would be an extremely challenging task to eliminate a budget deficit of that size at such short notice. The MTFP therefore included an assumption that Government support of £1.0 million would be received in 2021/22. In addition, it was also assumed that the Council would utilise £1.0 million of its contingency reserves. The target reduction in the base budget for 2021/22 was therefore £2.1 million.
- 1.3 Since the agreement of the MTFP, the following processes have been undertaken:
 - The financial assumptions made in the MTFP have been reviewed to ensure that they remain relevant
 - Subsequent developments – with financial consequences – that have emerged since the MTFP was prepared, have been incorporated; most notably the Government Spending Review 2020 announced by the Chancellor on 25th November 2020
 - A detailed review of other income and expenditure pressures and priorities has been undertaken to ensure that service budget targets are achievable and in accordance with the MTFP; and
 - Initial draft budgets have been prepared.
- 1.4 The purpose of this report is to present to Cabinet, an initial draft budget for the 2021/22 General Fund, for consideration, prior to scrutiny by the Stronger Council Select Committee on 19th January 2021.
- 1.5 Members are reminded that the budget presented is very much an early draft given the exceptional circumstances and uncertainty currently faced due to the pandemic, which means that information is constantly emerging and frequently changing. Therefore, adjustments can be expected as further information becomes available in the coming weeks. In particular, the Local Government Settlement for 2021/22 – which follows on from the Spending Review – is expected to be announced during the week commencing 14th December 2020, which misses the deadline for preparing this report.

2. General Fund Budget Preparation 2021/22

- 2.1 The MTFP adopted by the Cabinet in November 2020 has been followed, with detailed preparatory work now nearing completion. It is now possible to report that an early draft balanced budget has been achieved. The table below provides a high-level corporate summary of how the General Fund base budget has transitioned from 2020/21 through to a balanced position for 2021/22, following the identification of the deficit in November.

2021/22 General Fund Budget Evolution				
Description	2020/21 Budget	2021/22 MTFP (Nov 20)	2021/22 Draft Budget (Dec 20)	Variance (to MTFS)
	£000's	£000's	£000's	£000's
Employees	21,853	22,787	23,019	232
Premises	3,589	3,471	2,879	(592)
Transport	575	460	362	(98)
Supplies & Services	8,587	9,213	9,781	568
Support Services	38	38	51	13
Contracted Services	6,415	6,431	6,384	(47)
Transfer Payments (H Bens)	29,532	27,170	25,405	(1,765)
Financing Costs	1,858	2,405	2,480	75
Gross Expenditure	72,447	71,975	70,361	(1,614)
Fees and Charges	(14,808)	(13,766)	(15,561)	(1,795)
Government Contributions	(31,985)	(29,599)	(27,974)	1,625
Misc. Income (inc. Qualis)	(3,964)	(3,488)	(3,358)	130
Other Contributions	(3,078)	(3,078)	(2,974)	104
HRA Recharges	(2,642)	(2,700)	(3,155)	(455)
Net Expenditure	15,970	19,344	17,339	(2,005)
Council Tax	(8,344)	(8,568)	(8,506)	62
Business Rates	(5,255)	(5,470)	(5,535)	(65)
Collection Fund Adjustments	(896)	377	424	47
Council Tax Sharing Agreement (CTSA)	(670)	(500)	(450)	50
New Homes Bonus	(1,077)	(1,061)	(1,061)	0
Other Grants (Non-Specific)	(12)	(12)	(12)	0
Gov Support for Covid-19	0	(1,000)	(1,200)	(200)
Contribution to/(from) Reserves	284	(1,000)	(999)	1
Total Funding	(15,970)	(17,234)	(17,339)	(105)
(Surplus)/Deficit	0	2,110	0	(2,110)

2.2 In preparing the detailed budget – as is normal – a range of variances compared to the MTFP have been identified. The following discussion picks out the highlights for Expenditure, Income and Funding:

EXPENDITURE HIGHLIGHTS

- **Employees (£23.019 million)** – the increased cost of Employees compared to the 2020/21 budget and the November MTFP is the most significant variance. The MTFP was modelled based on the assumption of a 3% pay award. However, the Spending Review 2020 included a Public Sector Pay Freeze. In the circumstances, a revised assumption of a 1.5% pay award has been assumed at this stage. This had the effect of reducing anticipated budget demand by over £300,000. However, the subsequent work on the budget since the November Cabinet has entailed a ‘deep dive’ into the Council’s Establishment List and further analysis on budget coding in the Financial Management System. This work identified several anomalies, most of which were of relatively small value and have been addressed in the budget presented. However, the most significant item identified was the Council’s obligation to make a Pension Fund Deficit Reduction Payment (DRP) of £601,691 in 2021/22. The payment was known about and the marginal impact included in the MTFP. But complex local accounting arrangements for Pensions (under “IAS19”) includes – in budgetary terms – the separation of ‘routine’ (monthly) Pension contributions and DRPs. In substance, the budget for the DRP payment has not previously been included in the main General Fund budget for Management Accounts purposes, with payments being absorbed within year-end notional accounting adjustments. The inclusion of the DRP payment in Employee costs above introduces greater transparency and draws a clear distinction between genuine cash transactions and notional accounting adjustments. It should be noted that the HRA will meet an estimated £109,933 of the overall DRP payment (therefore net cost to General Fund is £491,758).
- **Premises (£2.879 million)** – the MTFP included a broad assumption that Premises costs could be reduced by at least 10% in the light of new working arrangements (escalated by the pandemic) and the reopening of the refurbished Civic Offices. However, detailed work on the budget has identified opportunities to exceed the 10% assumption across a range of costs including utilities and Business Rates. New ways of working have also enabled a significant reduction in Transport costs.
- **Supplies & Services (£9.781 million)** – the Council has been consistently underspending on Supplies and Services in recent years, which at first sight seemed to indicate a relatively easy opportunity to secure savings. However, the most significant underspending has occurred on ring-fenced budgets (e.g. on the Local Plan), which have been rolled forward. As noted in the November MTFP, a limited number of growth items have been included, such as the increased cost pressures on IT budgets as the Council moves its IT systems onto “the Cloud”, additional contributions towards Neighbourhood Police and additional commitments to Environmental Projects. However, the largest single variance relates to Insurance costs. The budget coding analysis in the Financial Management System referred to above, also identified the need to bring the Council’s insurance premium within the main General Fund budget; it has previously been accounted for in a separate holding account and does not appear in the Budget Book. The inclusion of the insurance premium in Supplies and Services will reduce accounting complexity and improve transparency in 2021/22. A total of £826,330 has been included in the General Fund budget for the insurance premium (although it should be noted that the Housing Revenue Account is expected to meet approximately £355,000 of the cost i.e. net cost to General Fund circa £471,000).

- **Transfer Payments (£25.405 million)** – Housing Benefit related budgets have now been reviewed in detail by the Housing Benefits Team based on latest ‘industry intelligence’. This has resulted in a significant reduction in the estimated value of Benefits to be paid in 2021/22. However, it should be noted that this is offset by a reduction in the amount Subsidy re-claimed from the DWP (under “Government Contributions”).
- **Financing Costs (£2.480 million)** – a further review of financing costs has not identified any need to significantly change the assumptions made in the MTFP at this stage, with the only difference being the inclusion of the estimated borrowing costs of a £10 million Development Loan to Qualis (assumed to occur midway through the financial year). Further work on financing costs – including the 2021/22 impacts of the joint Museum and Library project at Waltham Abbey – will be undertaken in January 2021 with the assistance of the Council’s Treasury Management advisors, Arlingclose.

INCOME HIGHLIGHTS

- **Fees and Charges (£15.561 million)** – detailed work on the income assumptions from Fees and Charges has been completed. No increases in Car Parking charges are assumed, with other assumed inflationary increases relatively modest (many are constrained by statute). However, there have been a range of significant positive developments to report on Fees and Charges. Most notably:
 - **North Weald Rental Income (impact £694,000)** – updated leasing arrangements recently agreed with HMRC at North Weald Airfield have been assumed to yield an additional £694,000 in 2021/22
 - **Leisure Management Fee (impact £500,000)** – the MTFP had assumed that the Council would lose 100% of the Leisure Management Fee (£1,471,420) for 2021/22. However, that was an assumption made before the announcement of the vaccine for Covid-19. It is now possible to make a slightly more optimistic assumption; accordingly, a Management Fee of £500,000 has been assumed (compared to the full Fee of £1,471,420)
 - **Planning Fees (impact £361,924)** – a detailed review of anticipated income from Planning Fees in 2021/22 (taking account of the vaccine, the lifting of the current restrictions by Natural England and the expected adoption of the Local Plan by Summer 2021) has now concluded that income assumptions compared to the MTFP can be increased; and
 - **Civic Offices Sub-Let (impact £250,000)** – net income of £250,000 is assumed from the letting of spare capacity within the newly refurbished Civic Offices. The Second Floor is actively being marketed with strong interest being shown from potentially suitable tenants.
- **HRA Recharges (£3.155 million)** – the budget assumption for HRA Recharges has risen by £455,000 compared to the MTFP, mainly driven by the technical adjustments for Pensions (impact £109,933) and Insurance (impact £355,000) noted above.

FUNDING HIGHLIGHTS

- **Council Tax (£8.506 million)** – the Council Tax Base for 2021/22 has now been determined and the preceptors have been notified. Whilst the MTFP did anticipate a reduction in the Tax Base due to Covid-19, the eventual impact – due in part to the second lockdown – was slightly greater than expected. There were a larger number of Local Council Tax Support (LCTS) cases than previously forecast and the anticipated collection rate was further reduced from 98.0% to 97.5%. The assumed Council Tax increase of £5 for a Band D property currently remains unchanged from the MTFP.
- **Business Rates (£5.535 million)** – the Business Rates calculation has been updated to reflect the “Academy” (Revenues) system figures at 30th November 2020, which yields a marginal improvement, although this budget will not be fixed until the Council has prepared its detailed Business Rates forecast (the “NNDR1” return) for 2021/22 (due 31st January 2021). It should be noted that, at the time of preparing this report, there is still significant uncertainty surrounding Business Rates for 2021/22, including the Government’s plans for Reliefs.
- **Council Tax Sharing Agreement (CTSA) (£0.450 million)** – there is still great uncertainty as to how much the Council might receive from the CTSA in 2021/22. However, emerging intelligence suggests that it would be prudent to further reduce the expectation (of £500,000) included in the MTFP (which itself was a reduction of £169,780 from the budgeted payments for 2020/21).
- **New Homes Bonus (NHB) (£1.061 million)** – the Spending Review 2020 confirmed that the NHB would continue in 2021/22. However, it also confirmed that there will be no further legacy payments. This means that the Council will not be receiving the £609,000 payment that it received in 2020/21 as originally assumed in the MTFP. However, it was also confirmed that councils will receive a new award for 2021/22; this was not assumed in the MTFP. Further information is awaited at the time of preparing this report. In the circumstances the MTFP estimate remains unaltered, although Members should note that this is a key risk area; the actual 2021/22 award could go up or down.
- **Government Support for Covid-19 (£1.200 million)** – the assumption regarding the level of Government support in 2021/22 has been raised by £200,000 compared to the MTFP. Although further details are awaited, the Spending Review announcement did contain some encouraging messages, including:
 - £1.55 billion nationally to cover Covid-19 related expenditure costs for Quarter 1 in 2021/22
 - The extension of the Sales, Fees and Charges (SFC) scheme for Quarter 1 of 2021/22 (75% reimbursement with a 5% disregard)
 - £670 million nationally to support LCTS (this is for extra costs from increased take-up referred to above regarding the Council Tax Base); and
 - Additional support for Collection Fund losses (75% of irrecoverable losses).
- **Contribution from Reserves (£0.999 million)** – the combined impacted of the initial draft budget for 2021/22, would result in a contribution of £0.999 from General Fund unallocated reserves; this is just within the parameter of £1.0 million set by Cabinet on 16th November 2020.

3. General Fund Budget Setting 2021/22: The Way Forward

- 3.1. The draft budget will now be presented to the Stronger Council Select Committee on 19th January 2021/22 for their consideration and comment ahead of the February Cabinet meeting.
- 3.2. Alongside the scrutiny process, officers will further refine the assumptions and projections in the budget accordance with the direction provided by Cabinet and emerging intelligence, including the imminent Local Government Settlement for 2021/22.

Appendix A (ANNEX 1)

ANNEX 1												
General Fund Budget Summary 2021/22 (DRAFT)												
	Chief Executive	Community & Wellbeing	Contracts & Technical	Corporate Services	Customer Services	Economic Projects	Finance & Audit	Housing & Property	Planning & Development	Strategy, Delivery & Performance	Unallocated Adjustments	General fund Total
	£s	£s	£s	£s	£s	£s	£s	£s	£s	£s	£s	£s
Employee Expenses	519,280	1,285,025	3,735,319	4,352,415	3,739,004	1,280,370	1,119,640	867,260	4,551,943	967,010	601,692	23,018,958
Premises Related Expenses	510	446,460	1,016,220	3,770	0	18,220	290	1,211,120	182,550			2,879,140
Transport Related Expenses	6,240	20,250	254,860	12,420	12,310	17,460	7,110	11,850	15,280	3,740		361,520
Supplies and Services	289,280	590,950	1,177,200	3,447,880	314,270	227,510	419,570	52,620	2,504,350	757,210		9,780,740
Support Services		4,350	7,130	19,200	4,510	3,250	120	1,890	10,800			51,250
Contracted Services			6,341,070			1,020		6,030	36,040			6,384,160
Transfer Payments					25,405,300							25,405,300
Financing Costs						2,480,000						2,480,000
Total Expenditure	815,310	2,346,935	12,531,791	7,835,685	29,475,394	1,547,830	4,026,730	2,150,770	7,300,963	1,727,960	601,692	70,361,068
Fees & Charges		-394,680	-11,910,780	-227,200		-5,780	-35,870	-275,000	-2,708,940	-2,660		-15,560,910
Government Contributions		-472,200			-26,633,780	-10,270			-658,410			-27,974,660
Misc Income		-260	-2,060	-67,160	-212,100	-3,058,990		-17,250	-307,820			-3,357,220
Other Contributions		-255,940	-2,142,800	-4,000	-128,510	-131,000	-1,330	-2,300				-2,973,880
HRA Recharges											-3,155,133	-3,155,133
Total Income	0	-1,122,980	-14,055,640	-298,360	-26,974,390	-147,050	-3,096,390	-277,300	-3,892,420	-2,660	-3,155,133	-53,022,323
Net Expenditure	815,310	1,223,955	-1,523,841	7,537,325	2,501,004	1,400,780	930,340	1,873,470	3,408,543	1,725,300	-2,553,441	17,338,745

Christopher Hartgrove: Person Deficit Adjustment

Christopher Hartgrove: HRA Recharges (including Person Deficit Adjustment £109,933)

Draft Budget Proposals 2021/22 (Housing Revenue Account)

1. Introduction and Background

- 1.1 The Council has a statutory duty to maintain a ring-fenced Housing Revenue Account (HRA). This includes a duty to maintain the financial sustainability of the HRA. To this end, in accordance with the HRA Subsidy Determination 2011/12, the Council maintains a 30-Year Business Plan, which sets the framework for the annual budget setting process.
- 1.2 The Council agreed it's Housing Revenue Account budget for 2020/21 in February 2020 and is summarised below.

Housing Revenue Account Budget 2020/21 <i>(adopted by Council 25/02/20)</i>	
Description	Amount £000's
EXPENDITURE	
Supervision & Management (General)	7,023
Supervision & Management (Special)	3,665
Rents, Rates Taxes and Insurances	520
Contributions to Repairs Fund	6,000
Management & Maintenance	17,208
Capital Charges	8,078
Major Repairs on Leasehold Properties	306
Treasury Management Expenses	57
Provision for Bad/Doubtful Debts	70
Total Expenditure	25,719
INCOME	
Gross Rent from Dwellings	(31,997)
Non-Dwellings Rents	(831)
Charges for Services & Facilities	(1,834)
Contributions from General Fund	(350)
Total Income	(35,012)
Net Cost of Services	(9,293)
Interest on Receipts and Balances	(378)
Interest Payable on Loans	5,668
Transfer from Major Repairs Reserve	0
Reversal of Repairs Service Depreciation	(66)
Pensions Interest Payable/Return on Assets	640
Net Operating Income	(3,430)
<i>Appropriations:</i>	
Direct Revenue Contributions to Capital	4,430
IAS19 Adjustment	(1,160)
Transfer to Self-Financing Reserve	130
(Surplus)/Deficit for Year	(30)

- 1.3 The table shows that the strategy embedded within the 2020/21 HRA budget was to achieve a small *surplus* of £30,000 and add this to an anticipated HRA contingency balance of £2.321 million assumed as at 31st March 2020. This would comfortably meet the commitment within the 30-Year Business Plan to maintain a minimum contingency balance of £2.0 million. However, the eventual outturn for 2019/20 resulted in an HRA loss, which reduced the contingency reserve to £2.030 million. This means that any significant loss in 2020/21 could potentially breach the minimum contingency balance.
- 1.4 An updated forecast was completed at the end of November, which indicated that the Council is broadly on course with the 2020/21 budget, with just a very small *deficit* of £30,000 expected. There are two major variances that effectively cancel each other out:
- Gross Rent from Dwellings (£610,000) – based on the latest available information from the Housing Rents system, a surplus of £610,000 is forecast on income from Dwellings compared to budget; however
 - Capital Charges (£599,000) – based on a review of the Fixed Asset Register, an overspend of £599,000 is expected on Capital Charges. This is due to a deficient Depreciation budget and is the same problem encountered in 2019/20 (the 2020/21 was already set by the time the issue had been identified).
- 1.5 In preparing a draft framework for the 2021/22 HRA budget within the parameters set by the 30-Year Business Plan, the following factors have been considered:
- The HRA forecast outturn for 2020/21 (as highlighted above)
 - An assumed increase in Rent of 1.5% (September 2020 CPI + 1%; in accordance with the Rent Standard 2020)
 - An assumed increase in Fees and Charges of 2.5%
 - Other inflationary assumptions consistent with those used in preparing the 2021/22 draft General Fund budget
 - The emerging Capital Programme for 2021/22; and
 - Any other local intelligence (e.g. consequent to the transfer of the Housing Repairs service with effect from 1st October 2020).
- 1.6 The detailed budget preparation phase for the HRA will conclude in early January 2021 with the results immediately progressing through the scrutiny process and then back to Cabinet in February 2021. However, the framework within which the budget will be prepared is presented in the table below for Members attention. There are no major changes expected at this stage compared to 2020/21, although – in the light of recent experience (presented above) – Income from Dwellings has been raised, which helps to fund the additional Capital Charges expected. It should also be noted that the annual Contribution to the Repairs Fund is assumed to increase from £6.0 million to £6.5 million as expenditure from the Fund has consistently outstripped contributions in recent years. Finally, a small projected HRA surplus of £62,000 would ensure that the Council retains the minimum contingency balance in accordance with the 30-Year Business Plan.

Housing Revenue Account Budget 2021/22 <i>(outline framework)</i>	
Description	Amount £000's
EXPENDITURE	
Supervision & Management (General)	7,203
Supervision & Management (Special)	3,738
Rents, Rates Taxes and Insurances	533
Contributions to Repairs Fund	6,500
Management & Maintenance	17,974
Capital Charges	8,850
Major Repairs on Leasehold Properties	300
Treasury Management Expenses	58
Provision for Bad/Doubtful Debts	91
Total Expenditure	27,274
INCOME	
Gross Rent from Dwellings	(33,346)
Non-Dwellings Rents	(810)
Charges for Services & Facilities	(2,492)
Contributions from General Fund	(357)
Total Income	(37,005)
Net Cost of Services	(9,731)
Interest on Receipts and Balances	(23)
Interest Payable on Loans	5,638
Transfer from Major Repairs Reserve	0
Reversal of Repairs Service Depreciation	(68)
Pensions Interest Payable/Return on Assets	652
Net Operating Income	(3,531)
<i>Appropriations:</i>	
Direct Revenue Contributions to Capital	4,652
IAS19 Adjustment	(1,183)
Transfer to Self-Financing Reserve	0
(Surplus)/Deficit for Year	(62)