

14 October 2020

Report of	Assistant Director, Corporate & Improvement	Author	Paul Cook <input type="checkbox"/> 505861 Darren Brown <input type="checkbox"/> 282891
Title	Budget 2021/22 and Medium-Term Financial Forecast		
Wards affected	All		

1 Executive Summary

- 1.1 The report sets out the current position on the 2021/22 budget and Medium Term Financial Forecast 2021/22 to 2024/25.

2 Recommended Decision

- 2.1 To approve the revised Medium Term Financial Forecast and MTFF assumptions 2021/22 to 2024/25 as set out in the Appendix to this report.
- 2.2 To grant delegated authority to the Portfolio Holder for Resources in liaison with the Head of Finance to determine the most advantageous business rate pooling arrangements for 2021/22 as set out in Section 11 of this report.
- 2.3 To approve up to £100k matched funding from the 2020/21 Capital Programme for MHCLG Rough Sleepers Capital Grant as set out in Section 22 of this report, subject to liaison with the Portfolio Holder for Housing.

3 Reason for Recommended Decision

- 3.1 To balance the 2021/22 budget and revise the Medium Term Financial Forecast.

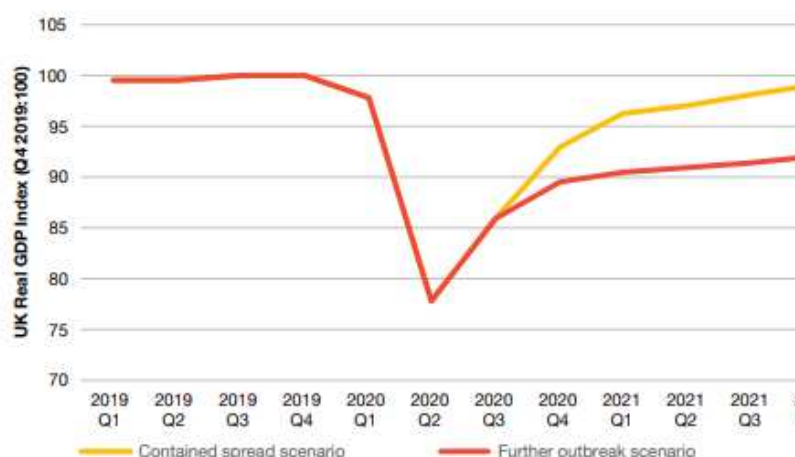
4 Alternative Options

- 4.1 The Council is obliged to balance its budget on an annual basis. There are no alternatives.

5 Overview

- 5.1 The Council's budget and Medium Term Financial Forecast address the impact of Covid-19. The budget and MTFF reshape Council services so that long term financial sustainability is achieved.
- 5.2 In June 2020 Cabinet approved the use of £6.692m reserves and £0.500m use of New Homes Bonus in 2020/21 to address the forecast cost of Covid-19. The Cabinet also agreed the Budget Strategy for 2021/22.
- 5.3 In July 2020 Cabinet approved progress made since June 2020 on the Budget Strategy.
- 5.4 Budget savings have now been identified and these are summarised in Section 8 of the report and more fully in the separate report on this Cabinet agenda. This is the maximum level of savings expected to be generated in 2021/22.
- 5.5 Approval of the savings is against a background of risks, and uncertainty created by the pandemic. That could continue to materially impact national and local economic activity, wealth and income as illustrated by this PwC forecast

Figure 1.4: Projections of the UK economic growth by scenario



- 5.6 The Council is therefore facing an unprecedented health and economic crisis, a deep recession and much reduced income requiring extraordinary efforts by the Council to ensure the books are balanced over the short and medium term.
- 5.7 National and local current and future restrictions and their economic and income impacts will be closely monitored and any amendment to income and savings recommendations will be reported to Council in February 2021.
- 5.8 The use of reserves totals £6.209m across 2020/22. Replenishment of reserves begins at a level of £0.250m in 2022/23, increasing to £0.500m in subsequent financial years.
- 5.9 The budget gap for 2022/23 is currently forecast at £2.574m.
- 5.10 The MTFF is now also revised to reflect more up to date assumptions. The revised MTFF and assumptions are set out in the Appendix to this report.

- 5.11 Forecast economic impact in 2021/22 is £2.900m. We now expect a second wave in Autumn and Winter 2020. This and later waves could impact on 2021/22 income prospects, despite our cautious approach and modelling. The position will need to be watched carefully up to finalising the budget at January 2021 Cabinet.

6 MTFF Consultation

- 6.1 The budget strategy and timetable have ensured that information is available for scrutiny and input from all Members.
- 6.2 The Task and Finish Group reviewed the introduction of green waste collection charges and its recommendations were considered at 19 August 2020 Cabinet.
- 6.3 Budget workshops were held on 4 August 2020; 26 August 2020 and 5 October 2020 so that all members could share in the task of meeting the budget challenge.
- 6.4 The Leader of the Opposition is able at any stage of the budget process to meet with officers to assist with consideration of any alternative budget proposals.
- 6.5 The normal statutory consultation with business ratepayers and parish councils will take place.

7 Risk Management Implications

- 7.1 Extensive modelling work has been undertaken to understand the impacts and variables arising from the crisis. Staff and support costs reflect current assumptions but will be subject to the progress of our transformation work.
- 7.2 Further government support should be provided to meet 100% of councils' additional costs. Increased support will be sought by lobbying and by discussions with MHCLG. The prospects for increased funding remain uncertain.
- 7.3 Leisure and commercial income are very dependent on factors beyond the Council's control, on lock-down, the return of consumer confidence, and impacts due to the severity and duration of the macro-economic downturn and recovery.
- 7.4 Modelling has been undertaken with service managers to assess the potential range of impacts before adopting the assumptions described within the report.
- 7.5 All the above and other significant uncertainties and risks will have to be managed. Further material change is likely to the current budget assumptions and the actions needed to ensure a balanced budget.

8 Savings progress

- 8.1 The Budget Strategy has led to the successful identification of a significant level of savings for 2021/22 and later years. These are summarised in the table below allocated to the strategic themes agreed by Cabinet in June 2020. The details of the savings are set out in the separate report on this agenda.

Row Labels	Sum of 2021-22	Sum of 2022-23	Sum of 2023-24	Sum of 2024-25
Commercial	436	5	70	
Efficiency	445	25		
Service Provision	804	150	115	
Communities	64			
Grand Total	1749	180	185	

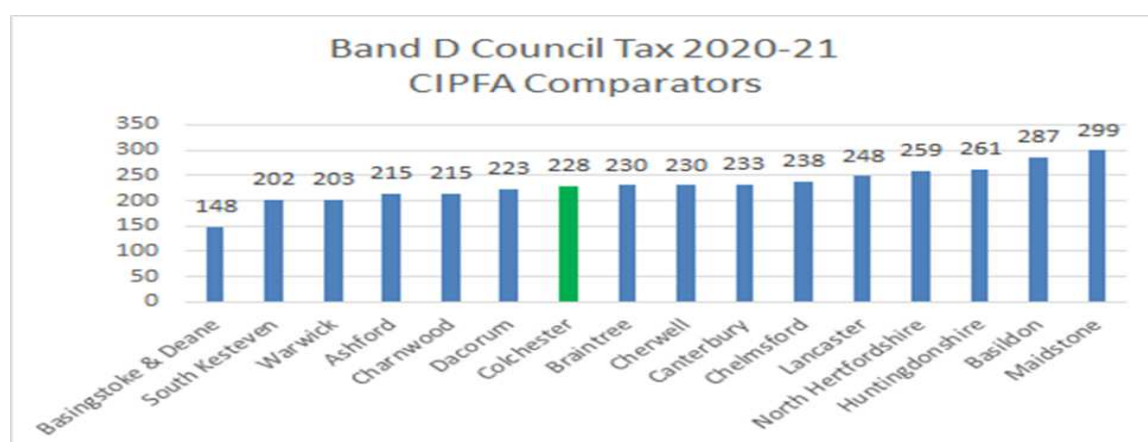
- 8.2 Considerable progress has been made in identifying savings, nonetheless the challenge for 2022/23 at £2.564m is considerable. As such, the strategic themes in the budget strategy will continue to be developed to achieve a sustainable medium term budget position.
- 8.3 Numerous additional opportunities have been identified already that require further feasibility work, business case development and due diligence before they can be realised, and benefits built into the MTFF. Further work, reflecting the Council's strategic priorities and the longer-term relationship between the Council, its partners in the public and voluntary sectors and the relationship with communities and businesses, is also underway.

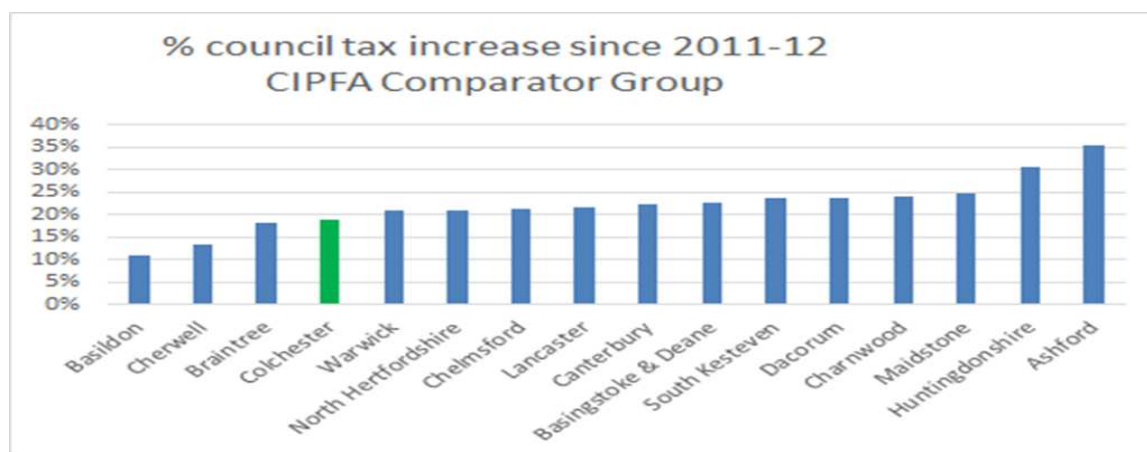
9 Budget pressures 2021/22 onwards

- 9.1 The MTFF allows £1.000m for new cost pressures in 2021/22 and £500k steps up from 2022/23 to 2024/25. It is expected one of the main calls on the 2021/22 allocation will be to cover variations in capital financing costs. This reflects capital programme variations due to Covid-19.
- 9.2 Services will therefore need to contain most pressures other than basic pay inflation and contract inflation in 2021/22. The MTFF allocation will be required for Councilwide pressures.

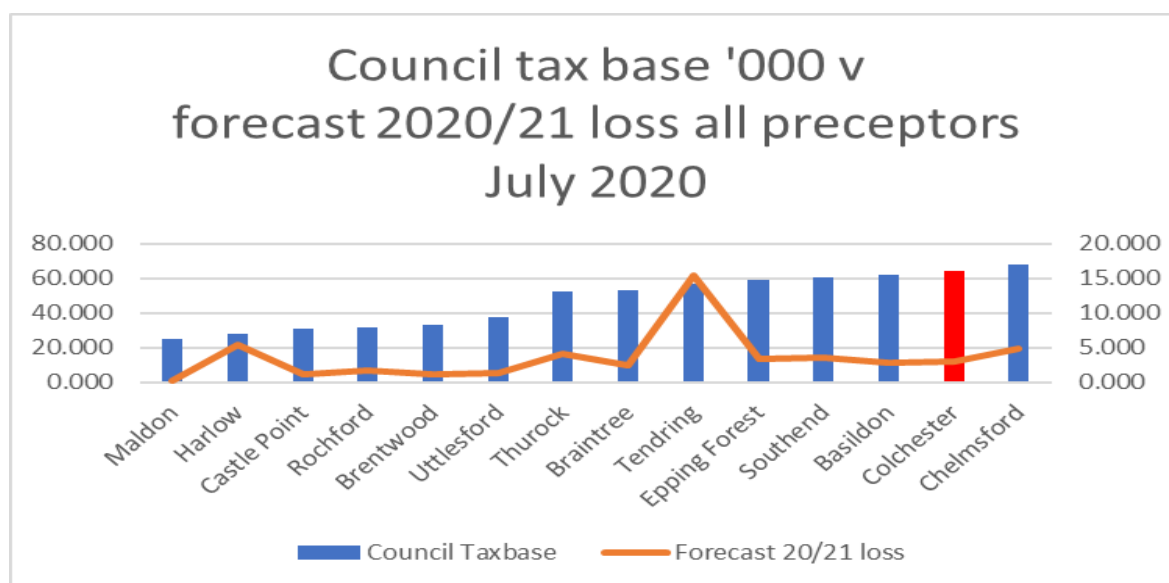
10 Council Tax

- 10.1 The 2020/21 limit for district council tax increases without a referendum was 2.5% or £5 (whichever is the larger). The MTFF assumes the same regime and that a £5 increase is made in each financial year. These remain low council tax rates compared to other district councils as set out in the charts below.





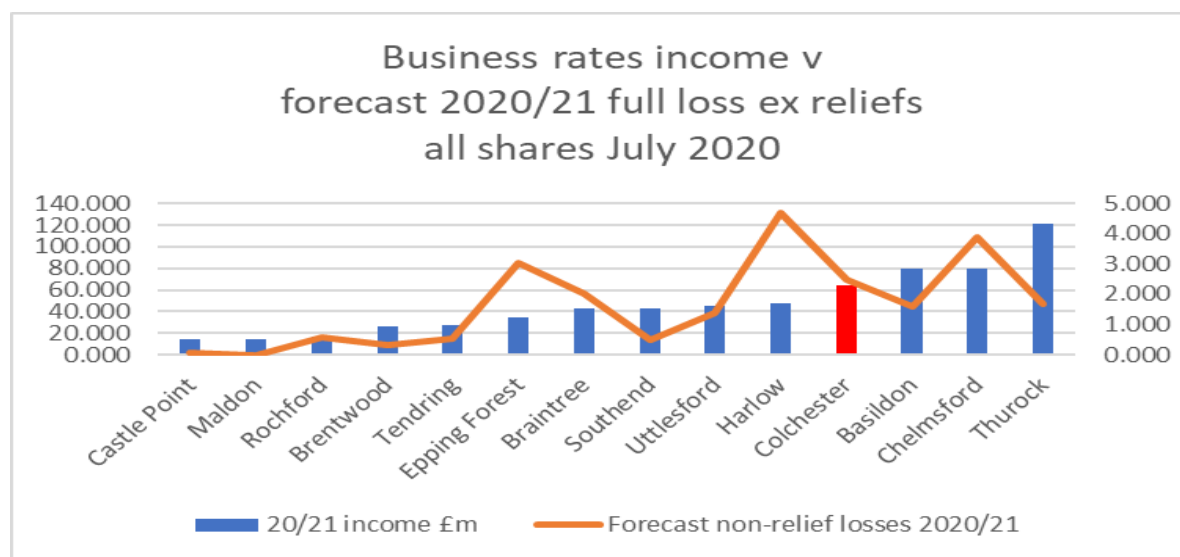
- 10.2 MTFF assumptions on collection rates and LCTS take-up from 2021/22 onwards are set out in the Appendix.
- 10.3 The impact of Covid-19 will result in a collection fund deficit in 2020/21. Council tax collection rates in 2020/21 have currently fallen by around 1% and LCTS additional costs to the collection fund are currently forecast at £400k. However, the position may deteriorate with the end of furlough arrangements. The MTFF assumption is a 95% collection rate.
- 10.4 The Council's share of 2020/21 council tax losses is estimated at £500k in the MTFF. This is spread over three financial years in accordance with proposed MHCLG arrangements. Full details of the deferral rules have yet to be released.



11 Business rates

- 11.1 MHCLG requires groups of authorities that wish to pool business rates in 2021/22 to express an interest by 23 October 2020. After that date any pool applicant's withdrawal will collapse the proposed pooling arrangement for all applicants.
- 11.2 The MTFF assumes £200k gain to Colchester from pooling and to continue the current pool is the favoured option.

- 11.3 Subject to ongoing technical discussion still in progress, a less likely option is to form a pool with a subset of the existing membership, excluding the authorities with the highest prospective business rate losses.
- 11.4 The most unlikely option is that there would be no pooling arrangement for 2021/22.
- 11.5 The Government has previously suggested it would implement 75% business rates retention in 2021/22. It is uncertain now whether implementation will go ahead. If implementation goes ahead in 2021/22 it is unclear how this will impact CBC.
- 11.6 MTFF assumptions on business rate collection rates are set out in the Appendix.
- 11.7 In 2020/21 business rate collection losses are limited by the various new discounts and reliefs set nationally by MHCLG. These arrangements result in business rates income that previously had a collection risk being paid instead to the Council as government grants. The 2020/21 business rates collection fund loss is forecast at £2.5m, with the Council's 40% share being £1m. This loss is spread over three financial years in accordance with proposed MHCLG arrangements. Full details of the deferral rules have yet to be released.
- 11.8 It is unclear what reliefs will be supported by MHCLG in 2021/22. It is likely the full impact of Covid-19 on the economy will manifest itself with the end of various temporary government support schemes to businesses and an economic recession. The 2021/22 business rates collection fund loss is forecast at £5m, with the Council's 40% share being £2m. This is again spread over three financial years in accordance with proposed MHCLG arrangements.
- 11.9 Collection fund losses reported by Essex authorities in July Covid-19 returns are shown in the chart. These demonstrate that Colchester is making provision at a commensurate level for council tax and business rate losses.



12 Income

- 12.1 Income performance and future forecasts are comprehensively reviewed in monthly financial monitoring. The Appendix sets out current income forecasts.

- 12.2 There is now a risk of a second wave in Autumn and Winter 2020. Forecast income loss for 2020/21 in the MTFF has not been amended at this stage from the July Cabinet assumption of £9.092m.

13 Government Funding

- 13.1 Unringfenced government support for Covid-19 in 2020/21 is £2.265m. It is not assumed in the MTFF any unringfenced government support for Covid-19 will be paid in 2021/22 and later years.
- 13.2 Income loss support will be paid by MHCLG in 2020/21 only. This has been forecast as £3.928m for the full year. Any adverse variation against the forecast figure will be an additional call on reserves.
- 13.3 Furlough support will be paid by HMRC in 2020/21 only. This has been forecast at £1.000m. The furlough entitlement will be checked in monthly revenue monitoring.
- 13.4 Major changes to local government funding planned by MHCLG have been delayed due to Covid-19. These are set out in the table.

1	Devolution White Paper	The White paper may include new funding arrangements for local government? What will be the timetable for reorganisation and will this put on hold other planned funding changes set out below. There will be uncertainty as to any reorganised authority's spending need v resources position.
2	Fair Funding	Settlement Funding Assessments include assumed need to spend in the calculation. The basis is unchanged for many years. The Fair Funding review could increase or decrease Colchester's SFA. This will depend on what new basis of calculating spending needs is adopted and when it is implemented.
3	100% business rates retention	An increased business rates share will replace some government grants. A key consideration will be how changes in business rates income are to be shared between local authorities and government. How long will local authorities be able to retain growth in business rates?
4	Spending Review	How will local government's share of public spending be changed? Will the distribution between second and first tier authorities change?
5	New Homes Bonus	The Government has planned for some time to review New Homes Bonus. Colchester received £4.055m in 2020/21. The MTFF forecasts later years at £2.945m. Changes could include: <ul style="list-style-type: none"> • Reducing or eliminating the national NHB pot • Reducing the incentive or the number of years paid • Heightening the incentive for fast growing councils

- 13.5 In view of all the uncertainties over future government funding, the MTFF provides £500k downward steps in each financial successive year.

14 Use of reserves

- 14.1 The planned use of reserves for Covid-19 is £2.870m in 2021/22. Together with £3.339m usage in 2020/21 the total Covid-19 usage is £6.209m.
- 14.2 Redundancy costs will arise in implementing savings, leading to a forecast £1.000m use of reserves.

Reserve usage reconciliation (£m)	Status	31.3.20	Use 20/1 Covid	Use 21/2 Covid	31.3.22
Future Service Reserve - Carry Forwards	Available	3.378	-1.500		1.878
Revenue Grants unapplied	Available	2.911	-0.019	-0.481	2.411
Renewals and Repairs	Available	2.455	-0.744	-0.603	1.108
Business Rates Reserve	Available	1.695	-0.540	-0.655	0.500
Revolving Investment Fund Reserve	Available	1.436	-0.536	-0.613	0.287
Future Service Reserve - Redundancy	Available	1.000			1.000
Capital Expenditure Reserve	Available	0.720			0.720
Future Service - Risk Allocation	Available	0.660			0.660
Insurance	Available	0.566		-0.121	0.445
Future Service - Excess balances	Available	0.397		-0.397	0.000
Future Service - Pooling gain	Available	0.195			0.195
S106 / Asset replacement	Available	0.050			0.050
Gosbeck Reserve	Not available	0.152			0.152
Mercury Theatre Reserve	Not available	0.100			0.100
Heritage Reserve	Not available	0.100			0.100
NEPP off street/CIMS	Not available	0.073			0.073
Heritage Mersea Mount	Not available	0.010			0.010
Pensions Deficit	Other use	3.124			3.124
		19.022	-3.339	-2.870	12.813
Total use Covid-19		-6.209			
Balance 31.3.22		12.813			
Potential use of redundancy provision		-1.000			
Revised balance 31.3.22		11.813			



- 14.3 The renewals and repairs reserve funds the replacement of plant and equipment that is essential for service delivery. The table below lists the purpose of the reserves held at 31 March 2020 where the balance exceeded £100k.

Row	Purpose	Scheme	Balance (£k)
1	Leisure World	General	326
2	Town Hall		137
3	Leisure World		131
4	Cemetery	Memorial Stability Programme	210
5	Crematorium	FBT Boiler Replacement	140
6	Crematorium	Flue replacement	120
7	Firstsite	Repair Costs	105

- 14.4 There are future risks that could also be an additional call on reserves:

- The uncertain long term economic impact of Covid-19.
- The potential impact of any second wave. The cost to the authority could be up to £1m a month, though income support grant from MHCLG might offset some of those losses.
- Reduction of MHCLG income support grant following release of the full grant details by MHCLG.
- Capital receipt losses leading to additional borrowing and capital financing costs.

15 Strategic Priorities and Recovery

- 15.1 The New Strategic Plan considered by Cabinet in September 2020 sets out three key priorities against each of five thematic areas, reflecting Covid-19 recovery priorities and financial considerations given the budget constraints outlined in this paper.
- 15.2 Post-crisis recovery, for the Council, our customers, communities and businesses, is of critical importance. This will be a key focus of activity in 2021/22 and the revised Medium Term Financial Forecast also assumes a budget of £250k is available in 2020/21 and 2021/22 to direct to new recovery programmes. This is needed to cover gaps in government help for the Covid-19 crisis and support the Borough's recovery.

16 Budget Planning Assumptions

- 16.1 The budget planning assumptions are set out in the Appendix.
- 16.2 The Council's revised Medium Term Financial Forecast is summarised below and set out in more detail in the Appendix. In this summarised table the Covid impacts are economic and income impact plus additional costs plus new funding for recovery. Use of reserves is the use originally planned in the MTFF plus the additional use for Covid-19.

Revised MTFF (£m)	20/21	21/22	22/23	23/24	24/25
Service costs	24,377	31,020	23,394	22,836	23,176
Covid Impacts	10,129	(8,361)	(2,050)	(700)	0
Business rates	(5,885)	(5,580)	(4,457)	(4,000)	(3,876)
Council tax	(12,448)	(11,889)	(12,248)	(12,612)	(13,145)
Other funding	(10,794)	(2,945)	(2,940)	(2,944)	(2,944)
Use of reserves	(5,378)	(2,245)	875	1,250	1,250
Savings to find	0	(0)	2,574	3,830	4,461

17 2020/21 Outturn

- 17.1 It is expected the 2020/21 outturn can be covered by reserves as set out in the MTFF.

18 Financial implications

- 18.1 As set out in the report.

19 Environmental and Climate Change Implications

- 19.1 All budget measures are assessed for their likely environmental impact, reflecting the Council's commitment to be 'carbon neutral' by 2030. Environment and Climate Change is an essential cross-cutting theme in the Council's recovery planning and a core theme of the new Strategic Plan.

20 Equality and Diversity Implications

- 20.1 Consideration will be given to equality and diversity issues in respect of budget changes proposed as part of the budget process. This will be done in line with agreed policies and procedures including production of Equality Impact Assessments where appropriate.

21 Other Standard References

- 21.1 There are no direct Publicity, Human Rights, Community Safety or Health and Safety implications as a result of this report.

22 MHCLG Rough Sleepers Funding

- 22.1 In August 2020, Colchester Borough Council made a bid for funding to the Government's "Next Steps Accommodation Programme" (NSAP). This competitive bidding fund is to support local authorities, and their partners, to ensure that the current accommodation and support that has been set up to safeguard rough sleepers coming in from the streets, people previously housed in shared night shelters and people who have become at risk of rough sleeping during the Covid-19 pandemic, is able to continue for an appropriate length of time. CBC's bid for revenue funding was successful and £119,429 was awarded.
- 22.2 The NSAP has also made funding of £198k available for additional long term accommodation. Our bid for this element of the NSAP funding was made jointly with a housing association to provide 8 longer term self-contained flats to be made available, which would also provide some move-on from our Housing First Project. To give this element of the bid the best opportunity of success, we are recommending that the Council match fund the capital request by up to £100k in

2020/2021. If the bid is successful, our match funding will have contributed to attracting an additional £430k in capital and revenue funding into Colchester to alleviate rough sleeping. The Housing Association are also providing a small amount of match funding.

- 22.3** The £100k can be identified by virements from other capital programme schemes and slippage in the capital programme.

MTFF Assumptions – all annual figures	20/21	21/22	22/23	23/24	24/25	Changes since July Cabinet for PMB discussion
Covid 19 Income loss and economic impact	9.092	2.900	1.500	0.500	0.000	Amphora dividend loss a separate line
Amphora Dividend Loss	0.300	0.100	0.000	0.000	0.000	
Additional direct Covid-19 costs	0.600	0.300	0.000	0.000	0.000	No change
Recovery programmes additional funding	0.250	0.250	0.000	0.000	0.000	Reduced from £0.333m steps 2020/21 to 2022/23
Transformation + restructuring costs	0.250	0.250	0.000	0.000	0.000	
Council tax loss 2020/21 impacting 2021-23		0.167	0.167	0.166	0.000	Was £1.200m 2021/22 – now £500k 3yr spread
Council tax base increase		+0.5%	+0.5%	+0.5%	+0.5%	No change
Council tax collection rate		+95%	+95%	+95%	+95%	No change
LCTS take-up v 2020/22 budget/ impact on District Council income		+25%/-1.5%	25%/-1.5%	25%/-1.5%	25%/-1.5%	No change
Business rates losses 2020/21 impacting 2021-23		0.333	0.333	0.334	0.000	Was £1.500m 2021/23 – now £1m 3yr spread
Business rates losses 2021/22 impacting 2022-24			0.666	0.666	0.668	New - £2m 3yr spread
Contractual inflation		0.240	0.240	0.240	0.240	No change
Pay inflation	3%/0.600	1%/0.200	1%/0.200	1%/0.200	1%/0.200	No change
Use of New Homes Bonus for Covid-19 pressures	-0.500	-1.774	-1.941	-2.341	-2.574	No change
Use of reserves for Covid-19	-3.339	-2.870	0.250	0.500	0.500	Was £6.692m 2020/21, £1.658m 2021/22. Replenishment reduced to £250k 2022/23
Government Grant Covid 19 general	-2.265	0.000	0.000	0.000	0.000	£317k additional
Government Grant Covid 19 income support	-3.928	0.000	0.000	0.000	0.000	New grant
Government Grant Covid 19 furlough	-1.000	0.000	0.000	0.000	0.000	Shorter duration + includes January bonus
Council Tax increase	£4.95	£5	£5	£5	£5	Was £10 in each year, now £5 in each year
Additional service income	0.000	0.000	0.000	0.000	0.000	Was £0.500m 2020/21, £1.050m 21/22 now deleted
Allowance for additional cost pressures		1.000	0.500	0.500	0.500	2021/22 allocation expected to be earmarked for capital financing
2022 Pension revaluation				0.600	0.600	No change

	2020/21		Revised				
	Budget	BQ	Q1	Q2	Q3	Q4	Loss
Car parks	-3.970	-0.993	-0.135	-0.617	-0.733	-0.654	1.831
Budget			-0.993	-0.993	-0.993	-0.993	
% of budget			14%	62%	74%	66%	
Commercial Rents	-2.864	-0.716	-0.596	-0.596	-0.596	-0.596	0.480
Budget			-0.716	-0.716	-0.716	-0.716	
% of budget			83%	83%	83%	83%	
Sport & Leisure	-3.808	-0.952	0.000	-0.051	-0.250	-0.500	3.007
Budget			-0.952	-0.952	-0.952	-0.952	
% of budget			0%	5%	26%	53%	
Recycling Credits	-1.512	-0.378	-0.243	-0.243	-0.243	-0.243	0.540
Budget			-0.378	-0.378	-0.378	-0.378	
% of budget			64%	64%	64%	64%	
Bereavement Servs	-1.362	-0.340	-0.340	-0.341	-0.341	-0.341	0.000
Budget			-0.340	-0.340	-0.340	-0.340	
% of budget			100%	100%	100%	100%	
Planning	-1.227	-0.307	-0.307	-0.306	-0.307	-0.306	0.000
Budget			-0.307	-0.307	-0.307	-0.307	
% of budget			100%	100%	100%	100%	
Trade Waste	-0.512	-0.128	-0.063	-0.063	-0.063	-0.063	0.260
Budget			-0.128	-0.128	-0.128	-0.128	
% of budget			49%	49%	49%	49%	
Museums	-0.479	-0.120	0.000	-0.020	-0.049	-0.050	0.360
Budget			-0.120	-0.120	-0.120	-0.120	
% of budget			0%	17%	41%	42%	
Building Control	-0.455	-0.114	-0.074	-0.110	-0.110	-0.111	0.050
Budget			-0.114	-0.114	-0.114	-0.114	
% of budget			65%	97%	97%	98%	
HB Overpayments	-0.450	-0.113	-0.111	-0.113	-0.113	-0.113	0.000
Budget			-0.113	-0.113	-0.113	-0.113	
% of budget			99%	100%	100%	100%	
Interest Receivable	-0.300	-0.075	0.000	0.000	0.000	0.000	0.300
Budget			-0.075	-0.075	-0.075	-0.075	
% of budget			0%	0%	0%	0%	
Court Fees	-0.277	-0.069	0.000	0.000	-0.208	-0.070	0.000
Budget			-0.069	-0.069	-0.069	-0.069	
% of budget			0%	0%	300%	100%	
Events	-0.300	-0.075	0.000	0.000	0.000	0.000	0.300
Budget			-0.075	-0.075	-0.075	-0.075	
% of budget			0%	0%	0%	0%	
Land Charges	-0.177	-0.044	-0.006	0.000	0.000	-0.014	0.157
Budget			-0.044	-0.044	-0.044	-0.044	
% of budget			14%	0%	0%	32%	
Premises Licensing	-0.158	-0.040	-0.040	-0.040	-0.040	-0.040	0.000
Budget			-0.040	-0.040	-0.040	-0.040	
% of budget			100%	100%	100%	100%	
Taxi Licensing	-0.109	-0.027	-0.027	-0.027	-0.027	-0.027	0.000
Budget			-0.027	-0.027	-0.027	-0.027	
% of budget			100%	100%	100%	100%	
Grand Total	-17.960	-4.490	-1.942	-2.527	-3.079	-3.127	7.285
Loss			-4.490	-4.490	-4.490	-4.490	
			43%	56%	69%	70%	

Revised MTFF (£m)	20/21	21/22	22/23	23/24	24/25
Previous year's budget	20,206	34,506	22,659	21,344	22,136
Pressures	5,803	(1,200)	830	1,584	1,040
New Strategic Priorities	216	200	333	333	0
Savings	- 1,848	(2,486)	(428)	(425)	0
Covid Economy and Income	9,392	(6,392)	(1,500)	(500)	0
Covid Service Costs	600	(300)	(300)	0	0
Covid Recovery	250	0	(250)	0	0
NHB redirected Covid Impact	- 113	(1,669)	0	(200)	0
This year's budget	34,506	22,659	21,344	22,136	23,176
Business Rates	- 5,885	(5,913)	(5,456)	(5,000)	(4,544)
Council Tax	- 12,503	(12,056)	(12,415)	(12,778)	(13,145)
New Homes Bonus	- 3,602	(2,945)	(2,940)	(2,944)	(2,944)
Planned use of reserves	- 2,039	625	625	750	750
Covid 2020/21 council tax loss	55	167	167	166	0
Covid 2020/21 business rate loss	-	333	999	1,000	668
Covid MHCLG income loss	- 3,928	0	0	0	0
Covid MHCLG unringfenced	- 2,265	0	0	0	0
Covid MHCLG furlough	- 1,000	0	0	0	0
Covid use of reserves	- 3,339	(2,870)	250	500	500
Budget Gap	0	- 0	2,574	3,830	4,461