

**NORTH NORTHAMPTONSHIRE SHADOW AUTHORITY****SHADOW EXECUTIVE COMMITTEE MEETING****7<sup>th</sup> January 2021**

<b>Report Title</b>	<b>Update on Draft Budget 2021-22 and Medium Term Financial Plan</b>
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- 1.1 This report sets out an update to the first draft Revenue Budget 2021-22 and Medium-Term Financial Plan for North Northamptonshire Council that was considered by the Shadow Executive on 7<sup>th</sup> December 2020 and which is currently under consultation.
- 1.2 The update is being provided following the announcement of individual authority allocations in the Provisional Local Government Finance Settlement announced on 17<sup>th</sup> December 2020.

**2. Executive Summary**

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- 2.1 This report presents an update to the first draft revenue budget and Medium Term Financial Plan for the new North Northamptonshire Council which was first reported to the Shadow Executive at its meeting in December. The report included the following statement:

*The creation of a new single tier council provides the opportunity to transform and improve local services for the residents of North Northamptonshire. The Council will work with businesses and other partners to support economic recovery following the COVID-19 pandemic and promote growth, and will support our communities and vulnerable people through our work with the voluntary and community sector. The draft budget and Medium Term Financial Plan has been developed in this context.*

- 2.2 As part of the budget strategy the council is committed to continue to work with businesses, partners and communities to support resilience, growth and wellbeing in North Northamptonshire. An example of this is a commitment to continuing resources for the voluntary and community sector in accordance with planned investment in 2021-22 by the sovereign councils which will provide certainty of funding for such vital organisations for the coming year. The Council is keen to build on its positive relationships and partnerships with the voluntary and community sector to provide support, particularly at this challenging time, and will continue to work with colleagues within the sector to jointly consider the potential investment for the future.
- 2.3 This report provides an update to the financial position following the announcement of the provisional Local Government Finance Settlement for 2021-22 on 17<sup>th</sup> December. The Settlement, which provides further detail following the Spending Review, is for one year only and much of the funding is one-off in nature.
- 2.4 It is expected that there will be significant changes to the funding regime for Local Government from 2022-23 onwards including the outcome of the Fair Funding Review which will consider the overall resource allocation methodology and changes to the Business Rates Retention Scheme. This makes meaningful medium term financial forecasting more challenging.
- 2.5 To help maintain and protect levels of service provision the Shadow Authority is currently consulting on a Core Council Tax increase of 1.99% which is up to the level set by the government without triggering a referendum and utilising the allowable social care precept increase of 3% in full, these limits were confirmed in the provisional Finance Settlement. This would contribute around £8m per annum and would represent a Band D level of Council Tax for North Northamptonshire Council of £1,532.90 in 2021-22, equivalent to £29.48 per week. This Band D figure does not include the Council Tax precept for individual town and parish councils or the Council Tax precept set for fire and police services which is set by the Northamptonshire Police, Fire and Crime Commissioner.
- 2.6 The draft revenue budget considered by the Shadow Executive on the 7th December 2020 highlighted a funding gap after a proposed increase in Council Tax of around £10m for 2021-22.
- 2.7 Following the announcement of the provisional Local Government Finance Settlement the forecast funding position for the Council improved by around £2m, leaving a gap of around £8m to meet for 2021-22. The following Table shows how the £8m gap has been closed.

	<b>£000</b>
<b>Budget Gap post Finance Settlement</b>	<b>7,923</b>
<b><u>Further Budget Adjustments</u></b>	
<b><i>Disaggregation/Aggregation Adjustments</i></b>	
Adults	(1,700)
Elections	(546)
<b><i>Improvements to the Collection Fund</i></b>	
Review of the business rates position	(3,799)
Changes to the Business Rates Collection Fund	(269)
Changes to the Council Tax position	(83)
<b><i>Use of Reserves</i></b>	
Use of reserves to meet costs on a one-off basis	(1,526)
<b>Estimated Budget Gap – Balanced</b>	<b>0</b>

2.8 However, whilst the budget is balanced for 2021-22 there are forecast deficits over the medium term period which will require further work, including continuing a strong programme of transformation, to provide a stable and sustainable financial position for the new council.

### **3. Recommendations**

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3.1 It is recommended that the Shadow Executive Committee:

- a) Approves the updates to the 2021-22 draft budget and medium term financial plan as set out in this report;
- b) Notes that this report shall be considered by Task and Finish groups that have been established by scrutiny committee to scrutinise the draft budget; and
- c) Endorses the addition of this report to the consultation process outlined at section 11.8-11.11 which commenced on 11<sup>th</sup> December 2020.

3.2 Reason for Recommendations:

- *To ensure that the Shadow Authority complies with its Constitution in setting the budget for North Northamptonshire.*

### **4. Report Background**

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4.1 The Chancellor of the Exchequer delivered a one year Spending Review on 25<sup>th</sup> November 2020. The Spending Review included high level national indications of local government funding and Council Tax referendum principles for 2021-22, however the allocations for individual councils were not announced until the publication of the Provisional Local Government Finance Settlement on 17<sup>th</sup> December 2020.

- 4.2 The 2021-22 draft revenue budget and Medium Term Financial Plan and the draft capital programme were considered by North Northamptonshire Shadow Executive Committee on 7<sup>th</sup> December 2020. The draft budget was based on estimated levels of funding following the Spending Review. The Shadow Overview and Scrutiny Committee considered the draft budget at their meeting on 10<sup>th</sup> December 2021. This budget highlighted a funding gap of c£10m for 2021-22.
- 4.3 A seven week period of consultation on the proposals contained within the draft 2021-22 budget began on 11<sup>th</sup> December 2020 and will conclude on 29<sup>th</sup> January 2021.
- 4.4 On 17<sup>th</sup> December the Government published the provisional Local Government Finance Settlement which provided further details on the allocations of funding to individual Councils following the Spending Review.
- 4.5 The headline announcements from the Provisional Local Government Finance Settlement included the following:
- Confirmation that the national **Core Spending Power** (CSP) will increase by 4.5% (£2.2bn).
  - The CSP assumes councils will approve the maximum Band D council tax increases, and tax base growth in line with average (by Local Authority) since 2016-17.
  - **Band D Council Tax Referendum Limits** were confirmed as 2% for core Council Tax and 3% for the Adult Social Care (ASC) precept.
  - **£300m grant for social care**, £240m of the allocation has been equalised for each authority's ability to generate income from the ASC precept – therefore underlying assumption that Local Authorities will apply the 3% ASC precept. All other social care grant funding in 2020-21 continues unchanged into 2021-22.
  - **Settlement Funding Assessment** (SFA) increases by £13m – i.e. by the inflationary increase in Revenue Support Grant.
  - **£111m lower tier services grant**. This is a new grant, its distribution is based on the SFA but also includes an element that ensures “no council will have less funding available in 2021-22 than 2020-21”.
  - **New Homes Bonus** (NHB) allocations of £622m will be made in 2021-22. There is no NHB returned surplus in 2021-22. The government is inviting views on a replacement for NHB considering where housing is most needed and where councils are most ambitious. The result of the lower national total in 2021-22 is that there is £278m remaining from the anticipated £900m total. This underspend is thought to have been allocated to other funding changes including £150m of the additional £300m for Social Care and £111m for the Lower Tier Fund.

- Increase to **Rural Service Delivery Grant (RSDG)** by £4 million, taking the total to £85 million to be distributed using the same approach as last year.

### **Other Funding Sources**

- Further funding for **Rough Sleepers**, £750m in total next year, a 60% increase on previous spending review.
- £165m is available for the **Troubled Families Programme**.
- £15m has been allocated to implement the Redmond Review which consider the audit arrangements for Local Authorities.
- Information about applying to the £4bn “levelling up” fund will be published early next year.
- The government will seek to find a new consensus for broader reforms for local government (including the Business Rates Retention Scheme and Fair Funding Review) when the post-COVID future is clearer. Multi-year settlements can be expected from 2022-23 but the Government will need to consider the economic circumstances.

### **COVID-19 Related Funding (One-off)**

- £1.55bn **Tranche 5 COVID-19 funding** – Allocated based on the COVID Relative Needs Formula which was developed for Tranche 3.
- £670m **Local Council Tax Support Grant** which is a new grant outside the core settlement which will fund local authorities for the expected increase in Local Council Tax Support in 2021-22. There is no expectation from Government of a continuation of the Hardship Fund which was delivered in 2020-21 and instead the grant is to cover the potential impact of LCTS. The allocation remains subject to consultation and is not yet included within the budget. It will be reviewed in light of further clarification regarding its use and the latest assumptions on the LCTS impact for the Council before the final budget is presented in February.
- **Local Tax Income Guarantee Scheme** 75% support scheme methodology announced. Further details expected on methodology for allocation to councils.

- 4.6 Whilst a number of the above allocations are in line with the draft budget assumptions presented to the Shadow Executive Committee in December there are some areas where the actual allocations differ, resulting in a net improvement to the Council’s overall funding position of £1.975m.
- 4.7 This report provides four key updates to the Council’s General Fund Revenue Budget.

- Firstly, it sets out the changes to the forecast funding position included in the draft 2021-22 budget presented to the December Shadow Executive Committee following the announcement of the Provisional Local Government Finance Settlement on 17<sup>th</sup> December 2020.
- Secondly, it proposes strategies to balance the budget gap in 2021-22
- Thirdly, it explains changes to the financial position over the medium term.
- Finally, it sets out the forecast level of reserves for North Northamptonshire at 31<sup>st</sup> March 2021.

## 5. Provisional Local Government Finance Settlement

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- 5.1 On the 17<sup>th</sup> December 2020 Government made a statement announcing the provisional Local Government Finance Settlement for 2021-22. This confirms the financial allocations for one year only and is based on the Spending Review 2020 funding levels. The details for this are set out in this section;

### New Homes Bonus

- 5.2 In the draft budget report the figure for New Homes Bonus (NHB) funding for 2021-22 was based on legacy payments only. Following the provisional settlement a further year of reward for bringing more houses into use has been announced. This is the same approach as taken in 2020-21, but as with 2020-21 there will be no associated legacy payment. There will be two legacy payments in 2021-22 relating to 2018-19 and 2019-20 – these will continue as planned. The Council's 2021-22 budget and MTFP is modelled on these assumptions. In the draft budget report presented to the Shadow Executive the table below was presented showing the legacy payments, this has now been updated to reflect the payment for 2020-21.

<b>Years</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>
Year 8 (2018/19)	2.380	-
Year 9 (2019/20)	1.819	1.819
<b>Draft Budget (Dec 20)</b>	<b>4.199</b>	<b>1.819</b>
Year 10 (2020/21)	1.439	-
<b>Updated Figures following LGF Settlement</b>	<b>5.638</b>	<b>1.819</b>

- 5.3 The Settlement confirmed that the cost of NHB in 2021-22 will reduce to £622m. Local authorities will receive New Homes Bonus (NHB) payments in respect of three years:
- Years 8 and 9 (legacy payments for growth in previous years)
  - Year 11 (payments earned based on the CTB1<sup>1</sup> form for October 2020)

<sup>1</sup> The CTB1 is a form completed by local authorities which calculates a council's taxbase.

- Payments for Year 10 will cease because these were one-off payments made in 2020-21 only and the NHB scheme did not attract future legacy payments.

5.4 The payments for 2020-21 are based on the National Average Council Tax of £1,817.62. The growth in tax base for North Northamptonshire based on a Band D was 745 properties giving a grant of £1.354m. In addition to this the number of Affordable Homes bought back into use was 248 and for this we receive £350 per dwelling, therefore this element of the scheme amounts to £0.087m. The total for Year 10 (2020-21) is £1.439m and when added to the legacy payments would mean the total NHB grant for 2021-22 would be £5.638m.

### **Business Rates**

5.5 The baseline position for Business Rates was £250k less than originally modelled, this is a result of the baseline funding levels being frozen in 2021-22 due to the business rate multiplier remaining unchanged. The decision to freeze the multiplier in 2021-22 will increase the compensation that is paid through a Section 31 grant together with compensation payments for previous decisions relating to a 2% cap on the multiplier in 2014-15 and 2015-16 and a switch to using CPI rather than RPI in 2018-19, compensation for this is estimated to be around £1.271m.

5.6 The Council's 2021-22 budget had reflected retained growth of £12.3m. Recent modelling together with announcements around the national roll out of a COVID-19 vaccine has resulted in the assumptions around growth being revised which has led to net additional growth of around £2.5m being incorporated into the 2021-22 draft budget.

5.7 These changes amount to additional income from business rates of around £3.8m.

### **Council Tax**

5.8 The Finance Settlement has confirmed the allowable increases for the Council Tax from precepting authorities, these remain unchanged from those set out in the spending review which were included in the draft budget report for Shadow Executive in December. The budget has been based on a Core Council Tax increase of 1.99% which is up to the level set by the government without triggering a referendum and utilising the allowable social care precept increase of 3% in full. This would contribute around £8m per annum and would represent a Band D level of Council Tax for North Northamptonshire Council of £1,532.90 in 2021-22, equivalent to £29.48 per week. This Band D figure does not include the Council Tax for individual town and parish councils or the Council Tax for fire and police by the Northamptonshire Police, Fire and Crime Commissioner.

5.9 The regulations have stated that if North Northamptonshire Council calculates its basic amount of Council Tax for 2021-22 under section 31B(1) of the 1992

Act, the authority's relevant basic amount of Council Tax for 2021-22 is excessive if the amount mentioned in section 52ZC(3A)(a)(a) of the 1992 Act is 5% (comprising 3% for expenditure on adult social care and 2% for other expenditure), or more than 5%, greater than the amount mentioned in section 52ZC(3A)(b) of that Act. The Council Tax Band D which has been proposed meets the guidelines.

- 5.10 A key feature of the Settlement and the Core Spending Power (CSP) is the increased reliance on council tax where 87% of the increase in CSP is assumed to be from council tax increases and is accompanied by relatively low increases in grant funding.

### **Collection Fund**

- 5.11 As reported in the draft budget report to Shadow Executive in December the Government have recognised the impact that COVID-19 has on the Collection Fund for Council Tax and Business Rates. It is important that members are aware of the impact that COVID-19 could have on the Collection Fund for both Council Tax and Business Rates as a result of the short, and medium term economic impacts of the pandemic. The impact on Council Tax could see a reduction in yield as result of lower collection rates, lower housing growth and an increase in Council Tax Support caseloads. For Business Rates the impact of COVID-19 could be businesses ceasing to trade and an increase in the number of businesses applying for reliefs and a reduction in collection rates.
- 5.12 Due to the mechanics of the Collection Fund this means that what is actually collected in 2020-21 will not impact on the 2020-21 budget, as the precepts and demands have been set for the year, however any changes in collection rates are accounted for in the following year. The 2021-22 draft budget estimates reflect this. The implications of existing and future bad debt and appeals provisions will be closely monitored to assess the impact in future years. In addition the Valuation Office (VO) has made an interim ruling on Material Changes in Circumstance (MCC) appeals. These appeals have been made by businesses affected by the COVID restrictions. As yet no decisions have been taken on reductions to rateable values as a result of the pandemic. When reductions in valuations are confirmed by the VOA, it is expected that 75% of the reduction would be funded by the Tax Income Guarantee Scheme in 2020-21.
- 5.13 The impact of COVID-19 on the Collection Fund has resulted in an estimated deficit position for both Council Tax and Business Rates. Councils are required to estimate the deficit at the 31<sup>st</sup> March 2021 and budget for this in 2021-22.
- 5.14 The government announced that they would amend secondary legislation and allow Authorities to spread the estimated deficit on the 2020-21 Collection Fund in equal instalments over 3 years – 2021-22 to 2023-24. The regulations to allow Collection Fund spreading became law on 1<sup>st</sup> December 2020. This has been confirmed in the Finance Settlement, further modelling has resulted in the Business Rates estimated deficit reducing from £2.050m to £1.781m in 2021-22, a reduction of £269k.



5.15 Further modelling around the Council Tax Collection Fund deficit has resulted in the overall Council Tax deficit reducing from £3m to £2.8m. This has reduced the Budget Requirement in each of the years as follows.

- 2021/22 - £83k
- 2022/23 - £58k
- 2023/24 - £58k

5.16 Further modelling around the Business Rates Collection Fund deficit has resulted in the overall Business Rates deficit reducing from £3.2m to £2.931m. The reduction of £269k has been reflected in full in 2021/22.

### **Revenue Support Grant (RSG)**

5.17 As indicated in the December Shadow Executive Report the Revenue Support Grant was due to end in 2019-20, however, as the Spending Review was delayed, payments continued into 2020-21.

5.18 At the time of the original draft budget report no announcements had been made regarding RSG for 2021-22 however as the spending review covered only one year it was expected that payments would continue as part of a one-year roll over settlement. The spending review indicated that a further £200m would be available nationally and the Council's 2021-22 draft budget reflected this position. However, the Local Government Finance Settlement only allocated £13m nationally to RSG, and the Council's share amounted to an additional £26k. This was £0.8m lower than originally anticipated.

### **Adult Social Care Grant**

5.19 The Spending Review announced on 25<sup>th</sup> November 2020 confirmed an additional £300m of funding nationally for Adult and Children's Social Care. The allocations for each authority, however, were not confirmed and it was originally estimated that North Northamptonshire would receive £1.4m based upon the allocation methodology that had been used for similar grants in previous years.

5.20 The allocations for each local authority have now been confirmed as part of the Provisional Local Government Finance Settlement and North Northamptonshire's allocation is £0.7m, which is £0.7m less than the amount forecast in the draft budget report. This is due to the allocation methodology being used, with £240m being used to equalise the difference in the ability to raise ASC precept income and the remaining £60m of the funding being allocated based upon Adult Social Care Relative Needs formula (RNF). Previously 85% of the grant had been allocated based upon RNF and 15% based on ASC precept flexibility.

5.21 In addition to the new grant as set out above, the Settlement confirmed the 2020-21 allocations for Social Care Grant have been continued into 2021-22. This is £7.678m for North Northamptonshire (which was in line with the anticipated disaggregation of the original funding for Northamptonshire County

Council of £15.3m in 2020-21). This is unchanged from the assumption in the draft budget report.

- 5.22 In summary, the total allocation of Social Care Grant for North Northamptonshire for 2021-22 is £8.4m.

### **Improved Better Care Fund (iBCF)**

- 5.23 The Provisional Local Government Finance Settlement has confirmed the Council's iBCF allocation for 2021-22 as being £11.185m. This is unchanged from the assumption in the draft budget report.

### **COVID-19 Related Funding**

- 5.24 As part of the Spending Review, Government announced further funding to meet the challenges posed by COVID-19. Details have now been published as part of the settlement regarding the individual support for local authorities in 2021-22. This funding has not been included in the Core Spending Power figures and is therefore viewed to be one-off in nature.

- 5.25 This additional support covers three areas:

- Additional Support Grant, this is to be distributed based on the Relative Needs Formula established for COVID-19 as part of the tranche 3 allocations
- Local Council Tax Support Grant
- Local Tax Income Guarantee Scheme

- 5.26 **Additional Support Grant** of £1.55bn was announced to support COVID-19 related pressures. The allocation for North Northamptonshire is £9.342m, which is £1.842m higher than assumed in the draft budget which was a prudent estimate based on the uncertainty of the allocation arrangements for the grant at the time.

- 5.27 **Local Council Tax Support Grant** is a new grant which was announced in the Spending Review but for which little detail was known at the time. The provisional allocations to each Council were announced shortly after the Local Government Finance Settlement, with North Northamptonshire being allocated £2.403m. The grant has been allocated based on working age Local Council Tax Support (LCTS) caseloads for the first two quarters of 2020-21. There is no expectation from Government of a continuation of the Hardship Fund which was delivered in 2020-21 and instead the grant is to cover the potential impact of LCTS. The allocation remains subject to consultation and is not yet included within the budget. It will be reviewed in light of further clarification regarding its use and the latest assumptions on the LCTS impact for the Council before the final budget is presented in February.

- 5.28 The **Local Tax Income Guarantee Scheme** has been established by the Government to fund 75% of irrecoverable losses in Council Tax and Business Rates and was announced in the Spending Review, with the provisional Financial Settlement confirming that £790m will be made available. However

as this relates to 2020-21 losses this will be accounted for in the accounts for 2020-21. Therefore, there is no direct impact on the 2021-22 budget. Government are due to issue further guidance to provide clarity around the application of the funding.

- 5.29 For Council Tax it is likely that the guarantee will predominantly cover expected Council Tax liability at the time of budget setting for 2020-21, which did not materialise. This might be, for example, due to an increase in Local Council Tax Support costs or unachieved Council Tax base growth.
- 5.30 For Business Rates it is expected to cover Business Rates liability which did not materialise as a result of the closure of businesses and low growth. Losses of Business Rates income in the scope of the guarantee will be measured by comparing an authority's estimated 2020-21 non-domestic rating income with its outturn figure for non-domestic rating income.
- 5.31 The compensation will be by way of a S31 grant, so does not feature in the Collection Fund, but is in the General Fund. As the compensation relates to 2020-21, it is expected at this point that any accrual would fall to the 2020-21 accounts. The grant is expected to be paid in January 2022. Further guidance is awaited on this.

#### **Other Government Funding**

- 5.32 The Local Government Finance Settlement announced a new grant called the "Lower Tier Support Grant" which was not included within the recent Spending Review announcement. This grant totals £111m nationally and has been allocated based on 2013-14 settlement funding assessment levels. It has been provided to ensure that no authority has total Core Spending Power lower than 2020-21 levels. For North Northamptonshire this grant totals £403k and this is now reflected in the 2021-22 draft budget.
- 5.33 There has been an increase nationally of £4m for Rural Services Delivery Grant, from £81m in 2020-21, to £85m in 2021-22. For North Northamptonshire this grant totals £35k and this is now reflected in the 2021-22 draft budget.

#### **Dedicated Schools Grant (DSG)**

- 5.34 The December DSG Settlement provides the final figures for the DSG with the exception of the Early Years Block (which is to be updated July 2021 based on census data) and the Import Export Adjustment on the High Needs Block.
- 5.35 The draft budget papers presented to Shadow Executive estimated a DSG settlement of £316m. There are a number of variances between the different funding blocks that make up the DSG, however the overall DSG figure in the Settlement is in line with the draft budget. An explanation of the changes from the provisional settlement to the latest in funding relating to the settlement in each of the funding blocks is explained below:

#### **Schools Block**

- Overall North Unitary Authority pupil increase resulting in a funding increase of £1.3m. Of this Primary pupils decreased by 238 pupils at a rate of £4,400.43 which resulted in a funding decrease of £1m. However, Secondary pupils increased by 413 pupils at a rate of £5,626.35 which increased the funding for this sector by £2.3m. Net change is c£1.3m.
- The North Unitary Authority Primary Unit of Funding (PUF) increased resulting in an increase of £8.24 per pupil and the Secondary Unit of Funding (SUF) had an increase of £42.95 per pupil. An overall increase in funding of c£1m.

### Early Years Block

- Increased by £0.63m as compared to 2020-21, an overall increase of 1.35%.
- £0.55m of the increase is on the 3 and 4-year-old rate following the 6p increase in the Early Years base rate.
- There is no increase in the supplementary funding for maintained nursery schools and 7 months of the funding is marked as “conditional and may change”.

### High Needs Block

- This remains as forecast in the provisional settlement.
- Hospital education has decreased unexpectedly by approx. £166k, a reduction of -8% (details have been requested).

5.36 The table below summarises the movements between the provisional and final settlements and the draft 2021-22 budget position.

	<b>Schools Block</b>	<b>Early Years Block</b>	<b>High Needs Block</b>	<b>Central Services Schools Block</b>	<b>Total DSG</b>
2020-21	£227m	£21m	£41m	£5m	£294m
Provisional Settlement 2021-22	£243m	£21m	£45m	£4m	<b>£313m</b>
December 20 DSG Settlement	£245m	£22m	£45m	£4m	<b>£316m</b>

### Summary of the Changes to the overall funding position for 2021-22

5.37 The table below summarises the changes following the Provisional Local Government Finance Settlement, this shows an increase in finding of £1.975m compared to that reported to the December Shadow Executive.

	<b>Budget 2021-22 £000</b>
<b>Budget Gap presented to Shadow Executive on 7<sup>th</sup> December</b>	<b>9,898</b>
<b>Finance Settlement Changes to Funding</b>	
New Homes Bonus	(1,439)
Additional Funding - CPI Increase – NNDR	250
Revenue Support Grant	824
Covid-19 Funding – tranche 5	(1,842)
Other Government Funding – Additional Adult Social Care Grant	670
Lower Tier Support Grant (new)	(403)
Rural Services Delivery Grant	(35)
<b>Net Change (additional funding)</b>	<b>(1,975)</b>
<b>Budget Gap post Finance Settlement</b>	<b>7,923</b>

## **6. Strategies to Balance the Budget**

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6.1 In order to close the net budget gap of £7.923m and have a balanced budget for 2021-22, a number of further mitigating measures have arisen since the draft budget proposals were considered by the Shadow Executive together with other adjustments. These include:

### Disaggregation/Aggregation Adjustments

- Further net improvements to the forecast revenue budget requirements following ongoing disaggregation of County budgets and other adjustments (net £1.7m).
  - £1.4m Saving – data sets reporting the level of adult social care client contributions have been refreshed. This continues to follow agreed disaggregation methodology with ordinary residence continuing to drive the West and North contribution levels. The refreshed set of data reflects a small increase (3.5%) in the levels of client contributions coming from those clients who are ordinary residence in the North and results in a £1.4m increase in client income for North Northamptonshire.
  - £0.3m Saving – agreed principles for the novation of major block bed contracts have now been concluded. This has resulted in an additional £0.3m saving for North Northamptonshire due to further efficiencies made on bringing in-house a previously external block care home. The home has now had a period of transition into the Council environment (15 months) which has resulted in further base budget savings being reported over the original savings proposal.

- There are further savings of £0.546m following the aggregation of election costs that were budgeted for the May 2021 election which can be met in part through reserves of £450k and going forward the base budget reflects £150k per annum which allows this smoothing strategy to meet future election costs.

#### Improvements to the Collection Fund

The detail of these changes is set out earlier in the report with the relevant paragraphs identified for each area.

- Review of the business rates position £3.799m. See paragraphs 5.5 - 5.7 above.
- Changes to the Council Tax position of £83k as set out in paragraph 5.15.
- Changes to the Business Rates Collection Fund. This totals £269k as detailed in paragraph 5.16 earlier.

#### Funding for One-Off COVID-19 Related Costs

- Use of reserves expected to be transferred from the County Council to meet one-off COVID-19 costs in 2021-22 (£1.526m).

6.2 These changes and the impact on closing the net budget gap are summarised in the table below:

	<b>£000</b>
<b>Budget Gap post Finance Settlement</b>	<b>7,923</b>
<b><u>Further Budget Adjustments</u></b>	
<b><i>Disaggregation/Aggregation Adjustments</i></b>	
Adults	(1,700)
Elections (Net Movement)	(96)
<b><i>Improvements to the Collection Fund</i></b>	
Review of the business rates position	(3,799)
Changes to the Business Rates Collection Fund	(269)
Changes to the Council Tax position	(83)
<b><i>Use of Reserves</i></b>	
Use of reserves to meet costs on a one-off basis	(1,976)
<b>Estimated Budget Gap – Balanced</b>	<b>0</b>

6.3 The forecast revenue budget for 2021-22 will continue to be kept under review ahead of the proposed final budget report in February 2021 being presented to Shadow Executive and Shadow Authority, and following scrutiny.

## **7. North Northamptonshire Transformation Programme**

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- 7.1 North Northamptonshire will have a dedicated transformation team working to deliver the transformation required in the North to separate the remaining hosted County services and bring services together effectively in order to move towards single more efficient operating models for services, including reviewing contractual arrangements and realising property efficiencies, thereby reducing costs and improve services going forward which is essential in light of the medium term financial challenged faced by the Council.
- 7.2 The Director of Transformation has put forward plans which estimates the annual cost of the team required to deliver the transformation programme over the next two years will be c£2.3m each year. This amount can be funded through the budgets already agreed for the transformation programme and earmarked reserves that currently exist.
- 7.3 The transformation team will be fundamental to the development and delivery of savings and service improvement.
- 7.4 In order for expenditure to continue to be incurred on transformation from 1 April an expenditure budget of £2.3m from 2021-22 is required which will initially be funded through earmarked reserves. This is reflected within the budget set out in this report.
- 7.5 Certain costs may be able to be funded through the Flexible Use of Capital Receipts (FUCR).
- 7.6 Qualifying revenue expenditure is time-limited expenditure incurred by the Council on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery in order to reduce costs or demand for services in future years.
- 7.7 Although set-up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure, the ongoing revenue costs of the new processes or arrangements are excluded and alternative funding will be required as necessary.
- 7.8 The decision to use capital receipts to fund transformational expenditure is one that will be considered as part of the final budget proposals. Using capital receipts to fund this type of expenditure provides greater flexibility in terms of how resources are utilised freeing up revenue funding.
- 7.9 The transformation costs referred to above and expenditure required to deliver some of the adult social care efficiencies are areas where the Council would seek authority to use capital receipts instead of revenue resources. A policy on the Flexible Use of Capital Receipts will be developed.

## **8. Revised Draft Budget 2021-22 and Medium Term Financial Plan**

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- 8.1 Taking in to account the impact of the announcements in the Provisional Local Government Finance Settlement and the other budget adjustments as set out

previously in this report, the revised position from 2021-22 to 2024-25 is set out in the table below:

<b>Detail</b>	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>
<b>Draft Net Budget</b>	<b>601,281</b>	<b>603,968</b>	<b>615,370</b>	<b>630,790</b>
New Homes Bonus	(5,638)	(1,819)	0	0
Business Rates Funding Baseline	(76,550)	(66,683)	(66,683)	(66,683)
Business Rates Collection Fund	1,781	575	575	0
Council Tax	(171,519)	(173,233)	(174,966)	(176,713)
Collection Fund (Council Tax)	1,851	475	475	0
Revenue Support Grant	(4,756)	(4,756)	(4,756)	(4,756)
Social Care Grant	(8,408)	(8,408)	(8,408)	(8,408)
DSG Grant	(316,000)	(316,000)	(316,000)	(316,000)
Improved Better Care Fund	(11,186)	(11,186)	(11,186)	(11,186)
COVID-19 Funding	(9,342)	0	0	0
LTSG Allocations	(403)	0	0	0
RSDG	(35)	(35)	(35)	(35)
Net Transfer to / (From) Reserves / including FUCR	(1,076)	(2,300)	(2,300)	(2,300)
<b>Total Funding</b>	<b>(601,281)</b>	<b>(583,370)</b>	<b>(583,284)</b>	<b>(586,081)</b>
<b>Budget Gap</b>	<b>0</b>	<b>20,598</b>	<b>32,086</b>	<b>44,709</b>
<b>Change in Budget Gap from Draft December Budget</b>	<b>(9,898)</b>	<b>(845)</b>	<b>(845)</b>	<b>(787)</b>

- 8.2 The table shows that whilst a balanced budget in 2021-22 is forecast there are deficits projected over the medium term that require strategies to be developed to produce a stable and sustainable financial position. These strategies will include efficiencies arising from aggregation and transformation of services.
- 8.3 It should be noted that over the medium term there are expected to be a number of changes to the way in which government allocates resources to councils which increases the level of risks. Potential changes include as a result of the fair funding review, business rates retention reform, an updated New Homes Bonus Scheme and social care funding reform. A further update on the approach towards managing the financial position over the medium term will be included as part of the report on the proposed final budget in February 2021.

## **9. Disaggregation of Northamptonshire County Council Balance Sheet**

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- 9.1 As reported in the budget report to Shadow Executive in December, there are linkages between items on the balance sheet, service revenue budgets, and the capital programme.
- 9.2 The disaggregation of the County Council's Balance Sheet has been undertaken on a principles-based approach. However, it is important to note that the opening values for North Northamptonshire Council's Balance Sheet cannot be confirmed until the final audits of the previous sovereign councils' accounts have been completed, and this will be after Vesting Day.
- 9.3 Disaggregation principles have been applied in order to split the County Council's Balance Sheet. These can be grouped by the following categories:
- **Unitary Geography**– Fixed Assets (eg Land and Buildings) have been allocated based upon the geographic location of the asset.
  - **Link to Capital programme / Capital Financing Requirement (CFR)** – For example borrowing to support historic capital expenditure. Further work is ongoing to determine the final split of budgets which are linked to the capital programme.
  - **Link to corresponding service disaggregation** – Where balance sheet items are linked to particular service areas, for example service related provisions, these have been disaggregated on the same basis as the corresponding service budget.
  - **Caretaker authority** – Outstanding legacy items such as debtor/creditor balances which will transfer to one of the Unitary authorities to be managed after Vesting Day.
  - **District/Borough Council areas** – Collection Fund related balances can be allocated to specific Borough/District council areas.
- 9.4 Whilst the majority of disaggregation principles have been agreed there is still some further work being undertaken to disaggregate some areas of the County Council's budgets and balance sheet. The primary areas outstanding relate to borrowing and investments. Further details will be presented as part of the final budget proposals.

## **10. Reserves**

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- 10.1 A core element of a financially sustainable and resilient council is to maintain a prudent level of reserves. This is demonstrated by Chartered Institute of Public Finance Accountants (CIPFA) who have stated as part of their Financial Management Code:
- “Local government reserves play a crucial role in good public financial management. They exist so that a council can invest in service transformation for the future or else allow them to respond to unexpected events or emerging needs.”*
- 10.2 As part of developing the draft budget for North Northamptonshire Council work has been ongoing with the existing sovereign councils to determine the level of reserves that will be available on 1<sup>st</sup> April 2021. This forecast is based on forecast year end position for each of the sovereign councils, and the

disaggregation of NCC reserves (working in conjunction with West Northamptonshire Council).

- 10.3 At this stage the levels of reserves for the council are only an indicative forecast based on the best information available at this time. The final reserves will be confirmed following the certification of the final audited accounts for 2020-21. There are also a number of uncertainties that need to crystallise before level of reserves will be known including the impact of COVID-19, any other unexpected events on the outturn positions for the sovereign councils in 2020-21 and finalising the disaggregation of NCC's reserves.
- 10.4 The latest forecast for the level of general fund revenue reserves only for North Northamptonshire available at 31<sup>st</sup> March 2021 is summarised in the table below – with further detail set out in Appendix B.

	<b>£m</b>
General Balances	20.6
Earmarked Reserves	63.1
<b>Total General Fund Reserves</b>	<b>83.7</b>

- 10.5 The estimated total level of general fund revenue reserves of £83.7m is made up of general balances and earmarked reserves set aside by sovereign councils at 31<sup>st</sup> March 2021. Whilst the general reserves of £20.6m provide a working balance to help cushion the impact of unexpected events or emergencies, the earmarked reserves balance of £63.1m reflects balances set aside by sovereign councils for a specific purpose or risk which will include commitments into future years.
- 10.6 The forecast reserves position of £83.7m in the table above will be fully reviewed from a North Northamptonshire perspective before the final budget is proposed in February. It is anticipated that some of these forecast reserves will have commitments against them in future years. One particular commitment that will be considered is how sovereign councils have managed section 31 grants through their business rates reserves as a consistent approach is required. The review of reserves will be driven by an assessment of the risks facing the new council, rather than an existing sovereign councils perspective as included in the £83.7m. The review will reallocate reserves based on risk in order to mitigate the new challenges faced.
- 10.7 In the draft budget for 2021-22 is a proposal to create a new reserve of £3.2m specifically to manage the risks arising from the volatility arising from social care budgets.

## **11. Implications (including financial implications)**

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### **Resources and Financial**

- 11.1 The resource and financial implications of the Shadow Authority's draft plans are set out in the body of, and appendices to, this report.

### **Legal**

- 11.2 The provisions of the Local Government Finance Act 1992 set out what the Shadow Authority has to base its budget calculations upon for the new Council, and require the Shadow Authority to set a balanced budget with regard to the advice of its Chief Finance Officer (Section 151 Officer).
- 11.3 The robustness of the proposed estimates and the adequacy of the proposed reserves must be addressed in the formal report to be made in February 2021 to both the Shadow Executive and the Shadow Authority by the Chief Finance Officer (Section 151 Officer). This report is required under Section 25 of the Local Government Act 2003 prior to the Shadow Authority agreeing its 2021-22 budget.

### **Risk**

- 11.4 The task of planning how the new North Northamptonshire Council will use its financial resources in an unprecedented and challenging economic climate with significant uncertainty around funding into the medium term results in high budget delivery risks.
- 11.5 Significant risks for the 2021-22 budget include the disaggregation of the County Council's service delivery budgets and balance sheet between the North and West, which could give rise to significant budget pressures and the ongoing impact of COVID-19 on the Council's resources and transformation programme.
- 11.6 A full schedule of risks relating to the 2021-22 budget and the Medium Term Financial Plan was included in Appendix F to the draft budget report considered by the Shadow Executive Committee on 7<sup>th</sup> December 2020.
- 11.7 Any risks or benefits crystallising in 2021-22 will be managed within the wider budget and the Medium Term Financial Plan will be updated accordingly.

### **Consultation**

- 11.8 Part E Financial Rules, Section 6 Budget Setting for 2021-22 of the Shadow Authority Constitution requires, inter alia, for a budget strategy and timetable to be prepared for engagement with the Shadow Executive Committee, Shadow Authority, Shadow Overview and Scrutiny Committee, stakeholders and the public, for consideration by the Shadow Executive.
- 11.9 The draft budget 2021-22 report considered by the Shadow Executive Committee on 7<sup>th</sup> December 2020 set out the terms of consultation with the Shadow Overview and Scrutiny Committee, stakeholders and the public in order to meet those requirements. As such, a seven week period of consultation on the proposals contained within the draft 2021-22 budget began on 11<sup>th</sup> December 2020 and will conclude on 29<sup>th</sup> January 2021.
- 11.10 It is proposed that this 2021-22 budget update report is added to the budget documents which are open to consultation.

11.11 If there are any changes made to the draft budget proposals following the consultation process, then the effect of this upon the overall budget position will be considered for the final budget paper in February 2021. This does not predetermine any decision that the Council may make in February 2021.

### **Consideration by Overview and Scrutiny Committee**

11.12 A Budget Scrutiny process is currently running as part of the overall consultation process. The Shadow Authority's Constitution further sets out the process of engagement that the Shadow Executive Committee must undertake with the Overview and Scrutiny Committee.

11.13 Scrutiny is a means for councillors not on the Shadow Executive Committee to influence the development of Council policies and services and hold decision-makers to account. Budget Scrutiny involves councillors reviewing significant proposals from across the draft budget and reporting their conclusions about the deliverability and service impact of these proposals to the Shadow Executive. In this way Budget Scrutiny contributes to the development of the final budget proposals and supports local democracy.

11.14 The Shadow Overview and Scrutiny Committee considered the draft budget at their meeting on 10<sup>th</sup> December 2020 and agreed to set up Task and Finish groups to scrutinise the budget. This budget update report will form part of the draft budget proposals considered by the Task and Finish groups.

11.15 Members of the public, representatives of community groups and other stakeholders can contribute to Budget Scrutiny by giving councillors their views about which proposals they should scrutinise and about how particular budget proposals may affect services. There will be opportunities to address the North Northamptonshire Shadow Overview and Scrutiny Committee at its public meeting taking place online at the following time:

- 28<sup>th</sup> January 2021 at 7pm.

11.16 Requests to address this meeting must be received no later than two working days prior to the meeting, further details of which will be set out in the agenda which will be published in due course at:

<https://cmis.northamptonshire.gov.uk/cm5live/NorthNorthamptonshireShadowAuthority.aspx>

### **Equality Screening**

11.17 Before taking decisions on the budget it is important that there is awareness of the potential implications of the proposals on people with protected characteristics, in order to comply with the Equality Duty.

11.18 Equality Impact Assessments (EIQAs) have been prepared for the proposals included in the draft budget and Medium Term Financial Plan considered by the Shadow Executive Committee on 7<sup>th</sup> December 2020 that directorates have determined may or will have an impact on service users and residents.

These are available by following the link below. The detail contained in the EqlAs will assist in the decision-making process by allowing Members and Officers to have due regard to the three aims of the Equality Duty when considering the budget proposals by understanding their impact on people with protected characteristics.

<https://futurenorthantsnorth.org/publications-and-background-documents/>

11.19 Further work undertaken during the consultation period (including findings from the consultation) will be used to inform the final EqlAs which will need to be conscientiously considered as part of the final decision-making process on the budget in February, including the cumulative impact of more than one savings proposal on the same group of people, if applicable. This will be an essential step in ensuring that the consultation findings are used to demonstrate the impact of proposals when the final decisions on the budget are being taken.

### **Climate Impact**

11.20 As noted in the draft budget and Medium Term Financial Plan presented to the North Northamptonshire Shadow Executive Committee on 7<sup>th</sup> December 2020, one of the new Council's priorities will be putting in place fresh plans to improve the local environment and tackle the ongoing climate emergency.

11.21 A 'North Northants Climate Change Task and Finish Group' has been set up by the Shadow Overview and Scrutiny Committee to enable proposals to be provided to the Shadow Executive Committee in order to create a framework to move these preparations forward in the run-up to Day One of the new Council.

11.22 The aims of the Group are to:

- Identify best practice in environmental enhancement within local authorities locally and nationally.
- Identify areas in which the new authority can demonstrate environmental enhancement.
- Develop an environmental framework which North Northamptonshire Council can use to guide its decision making, policy development and service delivery in relation to environmental enhancement and Climate Emergency commitments.

11.23 Members of the public are being encouraged to give their ideas and suggestions on how the new North Northamptonshire Council should tackle climate change and improve the local environment, including how the new Council can change its investment approach, and the way it spends its money to support the climate. More details can be found using the following link:

<https://futurenorthantsnorth.org/acting-on-climate-change-in-north-northamptonshire-give-your-views/>

### **Community Impact**

11.24 No distinct community impacts have been identified as a result of the information included in this report. The impact on communities will continue to be monitored in the development of the final budget.

## **12. Background Papers**

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12.1 The following documents disclose important facts on which the report is based and have been relied upon in preparing the report.

- Spending Review Announcement 25<sup>th</sup> November 2020:  
<https://www.gov.uk/government/publications/spending-review-2020-documents>
- Provisional Local Government Finance Settlement: England 2021-22 Announcement 17<sup>th</sup> December 2020:  
<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2021-to-2022>
- Previous reports to North Northamptonshire Shadow Executive Committee 27<sup>th</sup> August 2020:  
<https://cmis.northamptonshire.gov.uk/cm5live/MeetingsCalendar/tabid/73/ctl/ViewMeetingPublic/mid/410/Meeting/3666/Committee/458/Default.aspx>
- Previous reports to North Northamptonshire Shadow Executive Committee 7<sup>th</sup> December 2020:  
<https://cmis.northamptonshire.gov.uk/cm5live/MeetingsCalendar/tabid/73/ctl/ViewMeetingPublic/mid/410/Meeting/3815/Committee/458/Default.aspx>