Report to:

Council 25 February 2021

General Fund Revenue Budget 2021/22 and Medium Term Financial Plan 2022/23 to 2023/24

Report of the Leader of the Council

Purpose of the Report

1. To present to Council:

The Leader's General Fund Revenue Budget 2021/22 and Medium Term Financial Plan 2021/22 to 2023/24.

The following Appendices are attached to the report:

A (i)	- Summary of the Budget Consultation Exercise
A (ii)	- The Leader's Budget Statement 2021/22
B (i)	- 2021-22 Budget - Movement from February 2020
B (ii)	- Schedules of savings for 2021/22
B (iii)	- Demand and Cost Control Measures -CYPS and ASC
B (iv)	- Schedule of Review Activity for 2022/23 and beyond
B (v)	- Service Profiles
C	- Analysis of Business Units' Budgets
D	- 3 year Medium Term Financial Plan 2021/22 to 2023/24
E	- Policy Regarding Capital Receipts Flexibility
F	- Risk Assessment of level of General Reserves
G	- Schedule of General and Earmarked Reserves
H	- Hull City Council / Clinical Commissioning Group - Integrated Financial Plan
I	- Council Tax and Precepts (TBC)
J (i)	- DSG – Schools and Central Blocks
J (ii)	- DSG – High Needs Block

J (iii)	- DSG – Early Years Block
K	- CIPFA Resilience Index

Executive Summary

2. The report provides the suite of assumptions and technical underpinnings for the Leader's Budget statement, shown at Appendix A (ii) and the savings proposals included at Appendix B (ii).

3. The report also sets out the levels of Council Tax arising from the Leader's Budget Proposals for 2021/22. The resultant increase of 4.99% is in line with the referendum limits and includes a 3% Social Care Precept.

Recommendations

4. *The Council is recommended to:-*

   i) *Note the Leader's Budget Statement 2021/22 as set out in Appendix A(ii);*

   ii) *Approve the Council's 2021/22 Revenue Budget savings and Service expenditure allocations as set out in Appendices B (ii) and C; subject to any budget amendments properly notified to and approved by Council in line with the Constitution;*

   iii) *Note the Medium Term Financial Plan as set out at Appendix D;*

   iv) *Approve the Capital Receipts Flexibility Strategy set out at Appendix E:*

   v) *Approve the contribution to/from reserves and levels proposed at Appendix G;*

   vi) *Note the Health and Social Care Integrated Financial Plan, showing the expected spend in the City of both the Council and Clinical Commissioning Group (CCG), and support decision making relating to funds within this Plan being subject to consideration and approval by the Committees in Common.*

   vii) *Approve the levels of Council Tax, noting the precepts of the Police and Crime Commissioner for Humberside and the Humberside Fire Authority as set out at Appendix I (TBC)*

   viii) *Approve the allocations of Direct Schools Grant (DSG) including those relating to High Needs and Early Years as set out at Appendix J.*

   ix) *Note the comments of the Director of Finance and Transformation and Section 151 Officer on the robustness of the Budget and adequacy of reserves as set out at paragraph 65 and informed by the CIPFA resilience index summarised at paragraph 60 and Appendix K.*

Revenue Budget 2021/22 - Consultation

5. The Government announced details of the provisional Local Government finance settlement on 17 December 2020, with the final confirmed on 10 February 2021. This provides the detailed funding allocations that were broadly laid out in the Chancellor's Spending Review announcement in November 2020. This is a one year only settlement with a spending review to be conducted in 2021 for funding beyond 2021/22. The budget for 2021/22 reflects the changes in Government funding detailed in the settlement and the resulting MTFP movements required to produce a balanced position. Consultation has been completed with representatives of the Business Community, Voluntary, Community and Social Enterprise Sector, together with Young People from the city regarding the Council's budget. The Council has also undertaken a broader exercise regarding meeting Council priorities in an environment of reducing public sector funding through the People's Panel in the form of market research.

6. A summary of the consultation exercise is shown at Appendix A (i) alongside the Leader's Budget Statement which is attached at Appendix A (ii).

Local Government Finance Settlement – Core Funding and Business Rate Retention

7. The Provisional Local Government Settlement for 2021/22, which was issued on the 17 December 2020, provides funding allocations for one year only. Following last year's one year settlement, it was anticipated that there would be a full spending review during 2020. However, the impact of the Covid crisis has meant that a full review has not been completed. It is now hoped that during 2021 the Government will carry out a full spending review that will enable a long term local government settlement (3 years) to be produced in December 2021.

8. Whilst there has been an increase in Core Spending Power for 2021/22, mainly due to the additional social care grant and the 3% social care precept on council tax, this has done little to address the significant loss in funding in the ten years from 2010. The Council has lost £130m in Core Spending Power between 2010 and 2020, (a 55% reduction). Although significant reductions were faced across the whole local government sector, Hull and similar authorities, which have a high level of need but suffer from relatively low property values and economic growth, have continued to suffer disproportionately from the cuts in funding.

9. Due to the uncertainties surrounding the impact of the Covid pandemic, both the Fair Funding Review implementation and the move to 75% Business Rate Retention have been delayed a further year to 2022/23. This has increased the level of uncertainty around future local government funding and made any effort for long term planning more difficult. The Government has previously indicated that it intends to retain the system of 'top ups and tariffs' regarding Business Rates which is vital to cities like Hull, as it provides an element of redistribution from wealthier to poorer areas. It is essential for Hull that the Government ensures equity in the distribution of overall resources to adequately reflect comparative local needs and the differing abilities of councils to raise income locally. The Council will continue to lobby to best effect

through direct responses to Government consultation proposals as well as the Local Government Association and SIGOMA (the Special Interest Group of Metropolitan Authorities) within it.

10. In Hull the increase in core funding (settlement funding assessment) in the next year is 0.1% as shown in Table 1 below. Despite the small increase in estimated funding in 21/22, funding is still likely to be below current cost levels as service demands continue to increase. It is within this context that the Council must seek to continue to control its costs in order to bring expenditure into line with available resources.

Table 1 – Movement in Core Funding 2020/21 to 2021/22 and projected 2022/23

	2020/21 £m	2021/22 £m	Change		2022/23 £m (Est)	Change - from 2020/21 (Est)	
	A	B	£m	%	C	£m	%
Revenue Support Grant	24.38	24.51	0.13	0.5%	25.10	0.72	3.0%
Business Rate Funding							
- Top-Up	39.90	39.90	0	0%	40.76	0.86	2.2%
- Retained Business Rates	41.68	41.68	0	0%	42.60	0.92	2.2%
	81.58	81.58	0		83.36	1.78	
Total Core Funding	105.96	106.09	0.13	0.1%	108.46	2.50	2.4%

Balancing the 2021/22 Budget/Impact of COVID

11. The Budget and MTFP approved by Council in February 2020 provided for a balanced budget in 2020 /21 but highlighted a structural deficit from 2021/22 of c£5M, ahead of the anticipated implementation of Fair Funding from April 2021.

12. However, the COVID 19 crisis that has impacted the country from March of last year has fundamentally changed, and continues to dominate, the operational environment and financial outlook for the Council. There remains very significant uncertainty with regard to the course of the pandemic and its impact both locally on the residents and the economy of Hull over the coming months and on the public sector funding in the medium term. It is within this context that the Council must approve a budget for 2021/22.

13. Over recent months Cabinet and Scrutiny have been informed of potentially very significant budget deficits arising in both the current and future financial years as the financial impact of the pandemic and the Government's financial support package have evolved. However, as trailed in the Chancellor's spending review in November and confirmed in the Local Government Financial Settlement released on December 17, significant additional one-off funding has now been committed to

support Local Government. As a result it is now anticipated that the Council can manage the in-year impact with a neutral impact on the Council's Reserves and the 2021/22 Budget can be set without significant savings being required and therefore with services protected at current levels whilst the Council continues to respond to the on-going emergency ahead of supporting the recovery.

14. Although the Council can now enter 2021/22 in a financially stable position, it is important to note that the future year projections indicate potentially significant deficits. The funding position is very uncertain but the Government have indicated that they will conclude the Fair Funding review during 2021 and provide a multi-year settlement from 2022/23 which will provide the stability Council's require to enable robust service and financial planning. The pandemic and its impact on the local and national economy creates an additional layer of uncertainty which highlights the need for the Council to prepare for significant financial challenges in future years.

15. The challenge of delivering reductions in the cost base over the medium term, in the face of increasing demand, is shared by many other councils, and will be further exacerbated by the impact of COVID in creating both service pressure and uncertainty undermining both the stability of the Council and that of the City and its residents.

Implications of 2020/21 Activity and COVID

16. As set out in the latest monitoring report for 2020/21, it is now expected that the totality of COVID related costs and loss of income of c£70M (assuming that there is a gradual return to "normal" post Easter) can be funded from aggregate of additional funding provided by the Government. However, the latest review of activity and cost projections suggest that there will be around £28M of additional COVID related impact on the 2021/22 Budget costs. This is a combination of base cost carried over into future years, primarily in relation to Children's Services, expected one off costs as the pandemic impacts directly on activity in the first part of 2021/22 and the impact on the tax base.

Estimated 21/22 COVID Costs	**£M**
CYPFS – Additional Placement Costs	10.0
ASC – Additional 3rd Party Costs	2.0
Waste Disposal Costs / Car Parking Loss of Income	3.0
Public Health - Testing /Infection Control	3.0
NNDR (Business Rates)	4.0
Council Tax - Additional Subsidy Costs	3.0
HCAL Income loss	3.0
Total	**28.0**

17. Formal revenue monitoring reports during 2020/21 have highlighted significant cost pressures within Children's Services arising primarily from the impact of the pandemic and increasing demand. It is anticipated that demand will stabilise over the coming months and as a result the proposed budget and MTFP include additional estimates to reflect the reality of the existing cost base with an additional £10.0m being included for 2021/22.

18. The position relating to both the likely costs, income loss and funding relating to COVID remains fluid. The sudden move to a 3rd national lockdown on 5 January highlights the on-going and uncertain nature of the crisis and highlights the inevitable continuation of operational and financial impact into 2021/22 financial year. A contingency of £3M has been provided to meet such costs through lost car parking income and increased costs of waste disposal. It is also expected that a level of Public Health expenditure will be incurred in the new financial year though on going testing and infection control initiatives. This has been estimated at £3M.

19. The Council's Tax base has been reduced through a reduction in both predicted Council Tax and NNDR yield. The speed of any economic recovery is very difficult to gauge and the budget projections reflect a continuation of the high numbers of residents in receipt of Council Tax Support – 4,000 above 2019/20 levels – and a reduction in NNDR due to expected company failures and downward revaluations reflecting falls in footfall / profit.

20. The HCAL income loss will fall to the Company and lead to a likely reported in year deficit.

21. The actual costs incurred during 2020/21, and any implications for 2021/22, will be reported to Cabinet within the Outturn report scheduled for May 2021 Cabinet.

On Going Priorities

<u>CYPS Transformation</u>

22. It remains necessary that CYPS devise and deliver changes in service delivery in order to minimise the cost implications, improve outcomes for young people and families, and drive down the cost of placements in future years. Service developments are informed by the on-going response to OFSTED inspections and of the £3M improvement funding included in the budget in 2020/21. £1.0m of investment funding has been carried forward to meet costs in 2021/22.

<u>Council Commitment to Carbon Neutrality</u>

23. The 2030 Carbon Neutral Strategy for Hull sets out the key challenges and activity required to meet the direction set by the Climate Emergency motion at Council in March 2019. The strategy identifies actions across eight themes; heat, power, mobility, consumption, innovation, skills and jobs, fair transition and carbon sequestration. The Capital Strategy identifies a number of projects primarily focused upon the energy and mobility themes at present some of which have the potential to generate a return on investment in the near term and support revenue budgets.

Capital Investment

24. There is a need to invest in the Council's assets and infrastructure in order to ensure the security of future service delivery. Details of the planned investment is included within the Capital Strategy and the associated increase in borrowing costs, £250,000, is reflected in the revenue budget

Service Efficiencies / Mitigations

25. Given the on-going COVID emergency, the immediate priority is to balance next year's budget and to provide a stable financial footing from which to continue to provide critical services and to prepare to support the recovery process. As such, and given the operational uncertainty, it would not be realistic / prudent to assume that significant savings can be delivered. However, as part of the budget setting process, additional efficiency savings (i.e. those without direct impact on frontline services) of £3.0m (c1% of net spend) have been identified by Directors. The updated schedule of savings is shown at Appendix B(ii).

26. In order to balance the 2021/22 budget, mitigation of £3M has been identified through the application of Capital Receipts to fund "Transformational Activity" in line with accounting flexibility provided by Government.

27. The forward projections, shown at paragraph 31 below, suggest that it is likely that the Council may face a material budget deficit in future years although the precise scale will not become clear until late 2021 at the earliest. As such it is essential that the Council protects its financial position by developing options capable of reducing the cost base, as maybe required through a programme of review activity.

28. It is not possible at this time to pre-determine the scale, or indeed the viability of savings associated with this programme of activity. Indeed, particularly with regard to the care services, the focus will be on delivering efficiencies and services benefits across the system thereby reducing future demand and cost. The focus over the coming years will be to develop, in good time, options which may include alternative service delivery models as well as potential savings, for Member consideration in the light of the prevailing financial context informed by Fair Funding. A schedule of proposed projects for further development is included at Appendix B(iv).

29. Appendix B (v) includes Service Profiles for individual departments, providing activity and operational information as context to the budget proposals.

2021/22 Budget and Forward Projections

30. The table below summarises the projected movements and identifies sums required to balance the budget in each of the next 3 years. In summary, after factoring in the approved savings, as detailed at Appendix B(ii), the projections show a balanced budget for 2021/22 but shortfalls in the next 2 years. The 2022/23 position will need to be addressed during 2021 when it is anticipated that the Government's intentions

regarding the future funding of Councils should be clearer. The 3 Year MTFP is shown at Appendix D with supporting narrative included in the paragraphs below.

31. Given the level of uncertainty with regard to future levels of local government funding, and the economy as a whole, together with the forecast budget deficit faced by the Council over at least the next 2 years, it is imperative that strict budgetary control is exercised across all services. The position within all services will continue to be closely monitored throughout 2021/22.

32. The provisional financial outturn providing details of 2020/21 actual spend against budget will be reported to Cabinet in May 2021 and this will inform the first formal revenue monitoring round for 2021/22. (The provisional outturn figures should be confirmed in September following the completion of the external audit of the Council's accounts).

Table 3 – Year on Year Movements

	2021/22	**2022/23**	**2023/24**
	£m	**£m**	**£m**
Movement in Resource Base	-20,700	7,700	-6,485
Contingencies and Budget Pressures	26,700	5,388	6,264
Sum Required to Balance Budget	6,000	13,088	-221
Savings - as at Appendix B(ii)	-3,000		
Use of Capital Receipts Flexibility	-3,000		
Budget Shortfall – In Year	0	13,088	-221
Budget Shortfall – Cumulative	**0**	**13,088**	**12,867**

Funding

Council Tax

33. Subject to Full Council approval, Council Tax projections have been reviewed and updated to reflect an assumed referendum level in operation for each year. The increase for 2021/22 includes 3% for a Social Care Precept that is available to authorities following the Chancellor's announcement in the November Spending Round –this is assumed for one year only. So these amounts currently are:

- Increase of 4.99% in 2021/22;
- Increase of 1.99% in 2022/23 and 2023/24.

34. The projections also reflect net increases in the number of homes, which includes the Kingswood development, and collection rates broadly in line with pre COVID levels.

Charges for Council Services

35. Fee levels are set at values consistent with recouping the cost of providing the service and protecting Council revenues whilst ensuring income targets are realistic in the light of the prevailing economic climate. The achievement of income targets will be reflected within the in-year monitoring reports, along with the delivery of the approved savings. In the light of the uncertain economic outlook, reflecting the impact of the on-going pandemic, income budgets relating to discretionary charges have not been increased. The potential for increased charges will be reviewed as part of the development of the 2022/23 budget and MTFP.

Business Rates and Enterprise Zones - Uplift in Business Rates

36. The Council is entitled to retain 100% of any increase in Business Rates arising within the designated Enterprise Zones. This additional funding can be used, in agreement with Local Enterprise Partnership (LEP), to support LEP priorities within the City.

37. The MTFP reflects the planned use of the EZ Business Rates uplift to support the Council's regeneration activities through revenue funding of £2.7m in 2021/22 and in future years, with the balance earmarked to fund capital projects as part of the on-going regeneration of the City.

Employer Pension Contributions

38. Following the Triennial valuation of the East Riding Pension Fund as at 31 March 2019, the Actuary advised the value of employer's contributions relating to the funding of historic service benefits would reduce by 1% (c£1.25m per annum) for 2020/21 to 2022/23.

39. In line with the Cabinet decision of January 2020 to approve the pre-payment of employer contributions for the period April 2020 to March 2023, the secondary element of employers contributions were pre-paid in April 2020 and the primary element will be pre-paid from April 2021. The pre-payment of the primary element was deferred for one year due to the financial uncertainty caused by the Covid 19 crisis.

Capital Financing

40. The MTFP projections have also been updated to reflect latest information regarding the Capital Programme with Capital Financing Costs revised in line with latest expenditure projections. The projections in this report are consistent with the detail contained within the Capital Strategy elsewhere on this agenda.

Contingencies

41. Service budgets may be subject to further adjustments including the allocation of contingencies / provisions to meet cost pressures. These are technical adjustments which will not impact on approved service levels. Contingencies are shown within the MTFP at Appendix D and shown below at Table 3. The final costs relating to COVID incurred during 2020/21, and any variance from current projections, will be confirmed along with any consequential impact in 2021/22 as part of the Outturn report scheduled for Cabinet in May.

Table 4 – Contingencies to meet cost pressures

	2021/22 £000	**2022/23 £000**	**2023/24 £000**
- Energy Inflation (5% p.a.)	325	650	975
- Contractual Inflation – non Pay	1,582	3,082	4,582
- Pay Award	1,000	2,000	4,051
- Social Care Fund	-	3,122	6,122
- Covid19 Contingency	3,000	1,000	-
- Covid19 Contingency (Public Health)	3,000	-	-
Total – Contingency Budgets	8,907	9,854	15,730

42. In addition to the assumptions set out above the following factors have also been taken into consideration.

Transformational Costs (Utilising Capital Receipts Flexibility)

43. The Secretary of State for Communities and Local Government issued guidance in March 2016, giving local authorities greater freedoms with how capital receipts can be used to finance expenditure. This Direction allows for the expenditure incurred in delivering revenue savings or service transformation, between 2016/17 and 2021/22, to be treated as capital and not be charged to revenue, subject to generating funding from asset disposals in the same period and Council approval of the planned use of the flexibility.

44. The 2021/22 Budget has been set with the forecast use of £4m of such resources, £1m carried forward from 2020/21 relating Children's Services to and £3m mitigation referenced at paragraph 26, however it is anticipated that additional allocations may be made during the year in response to the identification of transformational service developments and the potential need to meet increasing service demands. The Council's Strategy is included at Appendix E.

Schools Funding / DSG

45. The Council's financial position is impacted by the way in which schools are funded and the ongoing transfers to academy status. Schools with Academy status, of which the number in Hull is 92 receive all their funding direct from the Government rather than through the Council.

46. The Dedicated Schools Grant (DSG) receivable by the Council in 2021/22 of £59.174m compares to the 2020/21 value of £55.127m. This reflects our increase in funding from the Department for Education for High Needs of £4.05m.

47. The DSG funding and costs must balance over time and, as highlighted in the successive monitoring reports to Members since 2017/18 some amendments to the pattern of expenditure will be required over the period of the MTFP. It is anticipated the DSG will end 2020/21 with a cumulative deficit of £5.241m, which is 9.5% of overall DSG. In 2021/22, it is anticipated there will be an in-year surplus of £2.00m which will be allocated to address the cumulative deficit with a view to achieving balance over 3 years.

48. The Council is continuing to work with the city's schools on the measures required to meet the needs of children within the available funding envelope. Changes impacting on service delivery will be the subject of future reports to Cabinet.

49. The budget figures for 2021/22 for the Schools Block, the Central Schools Services Block, the High Needs Block and the Early Years Block are shown in Appendices J (i) to (iii).

Public Health Grant

50. The September Spending Round indicated the Public Health Grant would receive a real terms increase in 2021/22, this has been estimated at £0.5m (remains subject to confirmation) and will be used to commission early intervention services. There are no increases assumed in later years within the MTFP.

The 3 Year Medium Term Financial Plan 2021/22 – 2023/24

51. The Medium Term Financial Plan shown in summary at Table 4 and in detail at Appendix D has been developed based on the assumptions discussed above and summarised below.

   i) MTFP reflects the funding allocations in 2021/22 in line with the 2021/22 Provisional Settlement. There is no indicative data relating to 2022/23 and 2023/24, but given the expected post COVID squeeze on public sector funding sub inflationary increases in funding have been assumed in the absence of detailed intelligence. There is a risk that funding may be lower than currently modelled and the forecasts may need to be revisited as the government works toward a spending review in 2021.
   ii) Provision of resources to allow pay increases for employees paid £24,000 or less in 2021/22 and 2022/23, 1.5% in later years and an increase in non pay budgets to reflect future contractual price increases.
   iii) Delivery of the budget savings set out in Appendix B (ii)
   iv) Council Tax increases to the referendum limit so currently 4.99% in 2021/22 and 1.99% in 2022/23 and 2023/24.

Table 5 – Summary MTFP

	2021/22 £m	2022/23 £m	2023/24 £m
Expenditure			
Directorates (including Public Health)	251	252	252
Schools	59	61	61
Corporate Budgets (including provisions for pay, prices, pensions)	35	35	41
Net Budget requirement	345	348	354
Funding			
Government Grant / Retained Business Rates	250	239	242
Contribution (to) / Use of Revenue reserves			
Contribution (to) / Use of Capital Reserves			
Council Tax (Increases of 4.99% / 1.99% / 1.99% increase)	92	96	99
Utilisation of Capital Receipts Flexibility	3		
Total Funding	345	335	341
Shortfall	0	13	13

Joint Commissioning with Clinical Commissioning Group (CCG)

52. As detailed in the table above, the latest projections indicate that the Council is faced with a budget shortfall in 2022/23 of £13m. This primarily reflects the Council's rising costs relating to the care of vulnerable children and the demand pressures within the wider adult and children's care system and the health sector across the city.

53. The Council cannot seek to address these issues and cost pressures in isolation, and so must continue to work with our partners, and specifically the NHS, to manage demand across the system utilising the resources available within the City. The move towards joint commissioning between the Council and CCG has developed at both an Officer (Integrated Commissioning Officer Board) and Member (Committees in Common) level and this provides confidence that efficiencies and improved value for money can be achieved. Recent announcements by the Government suggest that revised local NHS structures will be in place from 2022/23 and although this creates a further source of uncertainty, the strength of local relationships and structures should provide a strong basis for future service development. The total anticipated joint funding "envelope", is shown within Appendix H. The outcome of on-going joint working and collaboration will be subject to approval by the Committees in Common.

54. The anticipated changes in NHS structures builds on the national drive to reduce public sector expenditure and improve the quality of care the Government through encouraging closer working between Councils and the NHS. In broad terms there is a desire to reduce the cost of acute health care through better focussed and resourced community services designed to meet the care needs of individuals at an early stage and therefore reduce the call on expensive acute services.

55. To this end the Government introduced the Better Care Funding initiative in 2015/16 which sees significant resources from the NHS, and local Councils, jointly managed under the auspices of Health and Well Being Boards with a formal pooled budget arrangement. The MTFP for 2021/22 reflects the expected level of funding received from the NHS to support services.

Reserves

56. General Balances at April 2020 were £19.274m and the 2020/21 budget, as approved in February 2020, assumed an increase of £1.695m during the year.

57. A detailed risk assessment for the level of reserves is attached at Appendix F. In the light of the cost pressures recorded in 2020/21, the very real challenges faced by the Council in maintaining services whilst potentially suffering further cuts in funding and the continued uncertainty over government funding and the impact of COVID/BREXIT, the Risk Assessment continues to reflects the need to maintain General (Un-earmarked) Reserves at c£21m by 2021/22, as reflected within the budget proposal.

58. A schedule of Reserves movements is included at Appendix G.

Resilience Index

59. As part of the Government's and the Local Government sector's shared desire to better manage the financial risks faced by Councils, CIFPA issued the Financial Resilience Index in 2020. The Index measures each Council against 9 indicators, relating to reserves, debt servicing, social care and income generation, and provides comparison against other authorities. Whilst the Index should be seen in the context that all Councils are individual in terms of history, circumstance and strategy, the measures provide a useful comparable tool. The critical factors are considered in the paragraphs below with a summary of Hull's analysis included at Appendix K. The expected 2021 update has been delayed as a result of the pandemic, however whilst the analysis below is based on 2020 data, there is no expectation that the updated data will present a different picture.

- Reserves

60. Critically, whilst the analysis provides a good degree of comfort in terms of financial sustainability which reflects the fact that the Council has not used General Reserves to support the Revenue Budget, the Index highlights that despite bolstering over the last 3 years, they remain at comparably very low levels. This highlights the importance of protecting the General Reserves position in the light of the Council's

forecast budget deficit in 2022/23 ahead of the long awaited Spending and Fair Funding Reviews.

- Servicing of Debt

61. Whilst the Council's recorded debt levels appear relatively high it is important to note that this is in line with expectations given that the Council retains a large housing stock, and the associated housing debt, and has benefited from significant PFI investment which taken together at £400m account for c50% of the Council's recorded debt. Taking these adjustments into account HCC would move into the middle range which is consistent with the measure of interest costs as a proportion of total spend which places Hull around the average of comparable authorities.

- Social Care

62. This indicator is designed to highlight the future "flexibility" a Council may have in terms of reducing costs in services other than the statutory care services. The indicator places Hull in the middle range where social care costs account for c70% of expenditure with c30% on other services.

- Income Generation

63. The Index also highlights the very low tax base and relatively low levels of income generated from service users, which is consistent with being measured as a relatively deprived area, which in turn limits the scope for raising income locally through Council Tax or service charges. Similarly the Growth above Baseline measure highlights the relatively low level of growth in Business Rates but, given the planned "reset" of Business Rates whereby there will be a redistribution of such growth between authorities this translates into a low risk position for the Council.

64. ***St*atutory Officer Comments**

Under Section 25 of the Local Government Act 2003, and CIPFA Code of Practice, the Authority's Chief Financial Officer (s151 Officer) is required to report on the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed reserves.

Members are required under the 2003 Act to have regard to the Chief Financial Officer's report when making decisions about the budget calculations.

65. **The Director of Finance and Transformation (section 151 Officer) has made the following statement:**

The robustness of the budget estimates and the adequacy of the reserves are largely dependent on the levels of risk and uncertainty. The principal financial assumptions made in the budgets are noted in this report and attached appendices.
Budget monitoring throughout the year will be an important tool in identifying at an early stage potential problems so appropriate action can be taken.

The delivery of the planned savings and major business projects is critical to the successful delivery of the Council budget strategy. Current activity provides adequate assurance as to the deliverability the 2021/22 budget with future year forecasts representing realistic planning assumptions which will be subject to review as part of the next annual budget setting process.

The budget has been prepared reflecting known service pressures following thorough reviews by City Managers.

A risk based approach to consideration of the level of reserves is a component of the Council's overall risk management framework. Operational risks should be managed within Services' bottom line budgets and thus will not normally result in a call on the Council's reserves. However, the on-going uncertainty regarding the path of the current pandemic and the associated potential impact on service activity, income and costs creates additional risk to both the short and medium term financial projections

Appendix F summarises the significant financial risks applicable to Un-earmarked Reserves. The total potential risk to the Council is estimated to be £21m in 2021/22. The Authority's Un-earmarked Reserve was £8m at 31 March 2018 and is presently envisaged to be increased to £19m at 31 March 2020, and in the proposed budget it is planned to rise to £21m at 31 March 2021.

As noted above at paragraphs 60, comparison with all unitary councils, continues to show that Hull has a relatively low level of reserves when set against the scale of its operations, and also that it is relatively highly dependent on receiving government RSG and grant funding. These issues have been highlighted consistently and have informed reporting and lobbying for a considerable period of time. The latter aspect in particular has informed matters such as the Council's response to the Fair Funding consultation, when, along with other |Councils facing similar positions, the case was made very clearly that deprivation and the difficulty of raising income locally should be prime factors driving a new, more equitable, system for the distribution of government funding.

My assessment of the process that has been undertaken set alongside the risk assessment, informed by the CIPFA Resilience Index, is that the budget calculations used in the preparation of the budget estimates are fair and robust and reserves are adequate to reflect known circumstances.

66. **The Town Clerk (Monitoring Officer) has made the following statement:**

Before setting the level of the tax, the Council must have agreed a balanced budget, differentiated by services, which is sufficient to meet estimated revenue expenditure, levies, contingencies, any deficit estimated to be brought forward from previous years, and any amounts required to be transferred between funds. The tax itself must be sufficient to cover the difference between the agreed budget less government grants credited to the consolidated revenue account, and any other expenditure which must be met from the Collection Fund, less any surplus (or plus any deficit) brought forward from previous years.

In addition, following the implementation of the Local Government Act 2003, the Council's Chief Financial Officer (under s151 Local Government Act 1972) is required to report to the Council on the robustness of the estimates made for the purposes of the calculations, and the adequacy of the proposed financial reserves. The Council must have regard to the report when making decisions about the calculations in connection with which it is made. The Chief Financial Officer is also obliged to report to the Council if in relation to the previous financial year it appears that a controlled reserve is or is likely to be inadequate. A controlled reserve is one where the Secretary of State has, by regulation, defined the appropriate minimum level of reserve. The s151 officer must report the reasons for that situation, and the action, if any, which he considers it would be appropriate to take to prevent such a situation arising in relation to the corresponding reserve for the financial year under consideration.

Among the relevant considerations which Members must take into account in reaching their decisions will be the views of business ratepayers and the advice of officers. The duty to consult representatives of non-domestic ratepayers on the Council's expenditure plans is contained in Section 65 of the Local Government Finance Act 1992. Matters that the Council has to have regard to when undertaking consultation include:

1. Consultation must be undertaken at a formative stage in the decision making process inviting representation on one or more possible courses of action with a view to winnowing out errors in the decision-maker's provisional thinking
2. Consultation requires a genuine invitation for advice and a genuine receipt of that advice
3. It is permissible to narrow the range of options within which to consult and then decide
4. There is generally no obligation to consult upon options the decision maker has discarded, unless it is necessary to establish a fair basis for genuine consideration of options
5. Sufficient reasons for a proposal must be given to permit intelligent consideration and response
6. Adequate time must be given for consideration and response
7. The overriding requirement is for Fairness

In considering the advice of officers, and the weight to be attached to that advice, Members should have regard to the personal duties placed upon the Director of Finance as Chief Financial Officer. The Director of Finance is required by Section 151 of the Local Government Act 1972 and by the Accounts and Audit Regulations 2003 to ensure that the Council's budgeting, financial management, and accounting practices meet relevant statutory and professional requirements. (IA)

67. **Comments of City Manager for Human Resources**

The proposals to reach a balanced budget have some implications on staffing in terms of restrictions in recruitment, there may be some restructuring leading to staff having to be redeployed and where this is not possible there may be a small number of redundancies. The impact in terms of equality needs to be assessed with each decision taken in respect of balancing the budget.

68. **Comments of Overview and Scrutiny**

This report will be considered by the Finance and Value for Money Overview and Scrutiny Commission at its Budget meeting of Friday, 19 February, 2021. Any comments or recommendations made by the Commission will be tabled alongside the report at Cabinet. (Ref. Sc6034 (FH))

Collection Fund and Council Tax Implications

69. The Local Government Finance Act 1992 (as amended by the 2003 Act and the Localism Act 2011) sets out the powers and duties of the Council in setting the annual Council Tax. The key requirements are that:-

i) Council Tax is set at Full Council.

ii) Council Tax is set at a sufficient level to meet its proposed budget requirements for the ensuing year (see Sections 31A and 31B of the Act).

iii) The level of Council Tax is set before 11 March to enable circulation of Council Tax bills to enable people to pay on and after 1 April (see Section 30(6) of the Act).

iv) The Chief Finance Officer must report on the robustness of estimates and the proposed adequacy of reserves (see Section 25 of the Act and paragraph 56 above).

70. The Council is required to set a Council Tax sufficient to balance the Collection Fund account it maintains. Based on the projections at November 2020 and looking back at the income received in 2020/21, it is forecast that there will be a deficit on this account at year end. As it is expected that a significant element of the deficit will be due to COVID, the Government is allowing authorities to write off any exceptional deficit over 3 years. The Government has also agreed to pay 75% of losses of the 'Net Collectable Debit' due to COVID. The balance is required to be from the contributing or precepting authorities (the Council, Police and Fire & Rescue). Hull City Council's net deficit is forecast to be £0.7m and will be charged to the General Fund in 2021/22 as per Appendix D.

71. Under section 52ZB of the Act, each billing authority must determine whether its relevant basic amount of council tax for a financial year is excessive. If an authority's relevant basic amount of council tax is excessive, a referendum must be held in

relation to that amount. Using the Governments' principles determined by the Secretary of State under section 52ZC of the Act, the Councils' relevant basic council tax for 2021/22 is not excessive and therefore no referendum is required.

72. The Cabinet approved a Council Tax Base of 61,962 (Band D equivalents) for 2021/22 at its meeting on the 25 January 2021. Given the Council Tax requirement of £92,765,169, the Band D Council Tax proposed for 2021/22 is £1,497.13. This represents an increase of 4.99% over the 2020/21 charge. This is below the limit of 5% (including 3% for Social Care), above which the Government require a local referendum to take place to confirm such an increase.

Table 6 Proposed Council Tax Charge per Band

Band	Charge 2020/21	Proposed Charge 2021/22	Increase	Increase per week
	£	£	£	£
A	950.65	998.09	47.44	0.91
B	1,109.09	1,164.43	55.34	1.03
C	1,267.53	1,330.78	63.25	1.22
D	1,425.97	1,497.13	71.16	1.37
E	1,742.85	1,829.83	86.98	1.67
F	2,059.73	2,162.52	102.79	1.98
G	2,376.62	2,495.22	118.60	2.28
H	2,851.94	2,994.26	142.32	2.74
NB These figures exclude the charges for the Police and Fire Services				

73. The precept for the Humberside Police and Crime Commissioner for 2021/22 is £15,069,778. When this amount is divided by the approved Council Tax base of 61,962, it gives a Council Tax charge for a Band D property in the Kingston upon Hull area of £243.21. This is an increase of £14.99 (6.6%) on the 2020/21 charge and is below the £15 level at which a referendum would be required.

74. The precept for the Humberside Fire Authority for 2021/22 is £5,474,343. When this amount is divided by the approved Council Tax base of 61,962, it gives a Council Tax charge for a Band D property in the Kingston upon Hull area of £88.35. This is an increase of 1.99% on the 2020/21 charge.

Equality Impact Assessment Analysis

75. Section 149 of the Equality Act imposes a Public Sector Equality Duty on 'public authorities' when exercising public functions to have due regard to the need to:

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

76. Relevant protected characteristics are – age, disability, gender reassignment, pregnancy and maternity, race, religion and belief, sex and sexual orientation and, to a more limited extent, to the protected characteristic of marriage and civil partnership.

77. To ‘have due regard’ means that in making decisions and in its other day-to-day activities the Council must consciously consider the need to do the things set out in the general equality duty: eliminate discrimination, advance equality of opportunity and foster good relations.

78. The Council will only be able to comply with the general equality duty in relation to a decision, if the ultimate decision maker:

- understands the Council's obligations under the general equality duty
- has sufficient information
- Demonstrably takes this information fully into account throughout the decision-making process.

79. The courts have stressed the importance of having due regard before and at the time that a particular policy is being considered, and of exercising the duty with an open mind.

80. For proposals contained within this report leading to ongoing changes in services design and delivery, service managers will continue to consider ‘due regard’ for equality and demonstrate this via Equality Impact Analysis assessments.

81. It should also be recognised, that there will be positive impacts too from investment in capital projects supporting such as Housing Regeneration, Visitor Destination, Highways, A63 Bridge and infrastructure improvements which will particularly benefit older and disabled people. ICT improvements will likely mean better access for staff and customers particularly disabled, younger people and women.

82. The EIAs will be developed in consultation with stakeholders such as Elected Members, Trade Unions, protected groups, customers and users of services/policies.

Councillor Stephen Brady, Leader of the Council

Contact Officer – David Bell Tel. 01482 613084

Officer Interests: None

Background Documents:

(i) MTFP Cabinet Reports October 2020 / July 2020

Implications Matrix

I have informed and sought advice from HR, Legal, Finance, Overview and Scrutiny and the Climate Change Advisor and any other key stakeholders i.e. Portfolio Holder, relevant Ward Members etc prior to submitting this report for official comments	Yes
I have considered whether this report requests a decision that is outside the Budget and Policy Framework approved by Council	Yes
Value for money considerations have been accounted for within the report	Yes
The report is approved by the relevant City Manager	n/a
I have included any procurement/commercial issues/implications within the report	Yes
I have considered the potential media interest in this report and liaised with the Media Team to ensure that they are briefed to respond to media interest.	Yes
I have included any equalities and diversity implications within the report and where necessary I have completed an Equalities Impact Assessment and the outcomes are included within the report	Yes
Any Health and Safety implications are included within the report	Yes
Any human rights implications are included within the report	n/a
I have included any community safety implications and paid regard to Section 17 of the Crime and Disorder Act within the report	Yes
I have liaised with the Climate Change Advisor and any environmental and climate change issues/sustainability implications are included within the report	Yes

I have included information about how this report contributes to the City Plan/ Area priorities within the report	Yes