Budget and Medium Term Financial Strategy 2022-26

Cabinet	**18 November 2021**
Report Author	Chris Blundell, Director of Finance & Acting S151 Officer
Portfolio Holder	Cllr David Saunders, Cabinet Member for Finance
Status	For Decision
Classification:	Unrestricted
Key Decision	No/Budget and Policy Framework
Ward:	All

Executive Summary:

The purpose of this strategy is to set out the approach and principles the council will apply to develop and deliver a balanced budget for 2022-23 and a balanced Medium Term Financial Strategy (MTFS) 2022-26. There is again this year a great deal of uncertainty regarding the external funding framework and consequently it is challenging to assess the likely funding from and policies of central government. However, some work on budget projections has taken place, including an initial assessment by directors of growth and savings.

The council was already under financial pressure before the Covid-19 pandemic. Since then, over £5.5m has been received in general Government grants (Emergency funding and compensation for sales, fees and charges), all but £0.5m of which has been allocated to overspends in 2020-21 and 2021-22.

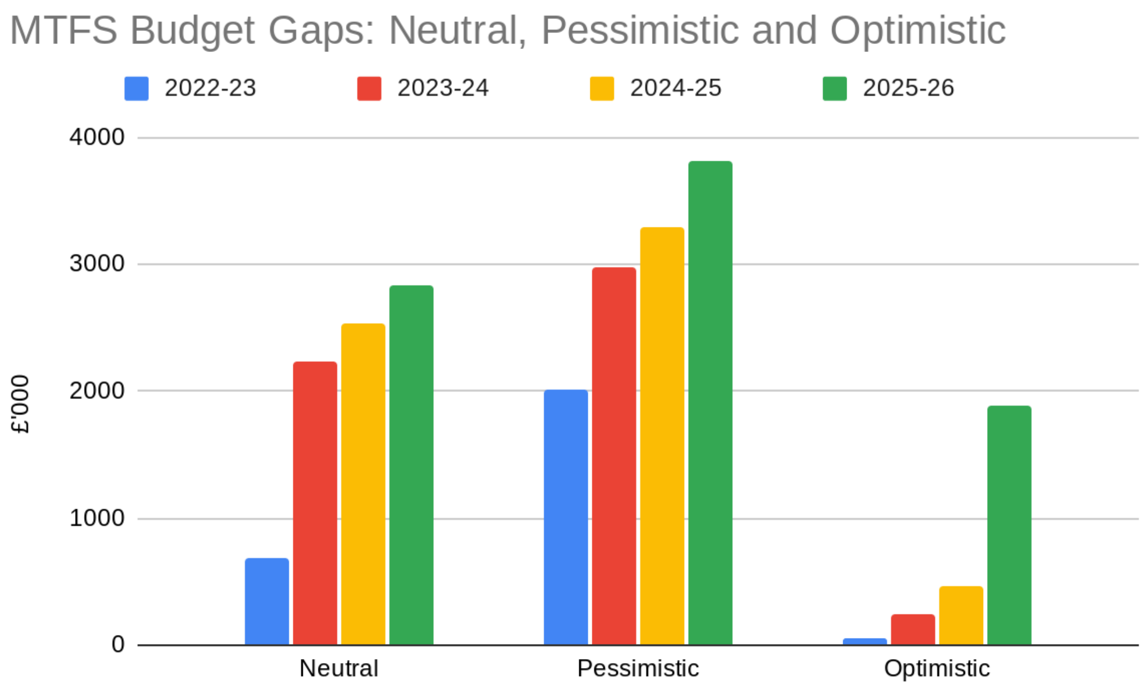
This report highlights the delicate financial situation for the council. Based on what we know at the time of writing this report, the projection is for a **£691k** budget gap in 2022-23 and a growing gap in the future years of the 2022-26 Medium Term Financial Strategy. There is a great deal of uncertainty, mainly centred on the future of local government finances but also in relation to pay and inflationary pressures. As such, three scenarios have been modelled and are presented in this report. Under the optimistic scenario the budget is broadly balanced, however under the pessimistic scenario the gap exceeds £2m.

Based on our neutral scenario or central projections, unless action is taken to address the gaps over the medium term, we will need to draw down over £8m of reserves (a 81% reduction) to balance our budget over the medium term, leaving our reserves only £1.0m above our minimum acceptable level by 2025-26. Under the more pessimistic scenario all our reserves and balances would be extinguished by 2025-26. This is clearly not a sustainable position for the council's finances and would leave the authority exposed to an unacceptable level of risk.

Permanent budget savings or solutions are required to address this structural deficit and deliver a balanced budget over the medium term. The strategy includes the following for consideration:

- Service directors exemplify options to save 10% from controllable budgets.
- Review of vacant posts - with the deletion of roles that have been vacant for a lengthy period of time
- An assessment is made as to what the provision of minimal statutory services would require
- The Head of Paid Service to consider a senior management restructure which would potentially generate a saving in excess of £100k
- Consideration of service redesign

The chart below sets out the budget gaps forecast across the medium term as varied under the different scenarios.



MTFS shows under the neutral scenario the budget gap increases to above £2m from 2023-24 onwards, peaking at close to £3m by 2025-26. Under the pessimistic scenario the gaps have a similar profile but are bigger in size across the timeframe, with a budget gap of c.£3m in 2023-23, increasing to almost £4m by the end of the MTFS. In contrast, under the optimistic scenario the budget gaps are relatively modest, until the last year of the MTFS.

As such the section 151 officer advises that, in addition to addressing the immediate challenge of finding sufficient savings to close the 2022-23 budget gap, the Council identifies longer-term budget savings in excess of £2m that can be implemented if and when necessary to close the forecast budget gaps presented above. This exercise should be undertaken at pace, to ensure the Council is prepared to react proactively to the financial challenges we face over the medium term.

Recommendations:

1. That the 2022-26 Budget and Medium Term Financial Strategy be approved;
2. That Cabinet provides direction on how the 2022-23 budget gap should be bridged; and
3. That Cabinet commits to the development of a long-term savings plan that exceeds £2m, in order to close the forecast medium term budget gaps.

Corporate Implications

Financial and Value for Money

This is a key report in the 2022-23 budget setting and MTFS process. Cabinet approval is sought for the strategy to set the 2022-23 budget and 2022-26 MTFS and to address the anticipated funding shortfall.

The Local Government Act 2003 Section 25 requires that the Chief Finance Officer (i.e. the S151 Officer) of the authority must report to it on the following matters:

(a) the robustness of the estimates made for the purposes of the calculations, and
(b) the adequacy of the proposed financial reserves.

A section 25 report or statement is typically incorporated into the overall budget report and reported to Council through that report. The projections set out in section 3 show a potential scenario whereby the council goes below its acceptable level of minimum reserves. This minimum level is set out in the council's existing strategy, at £2m. Our central 'neutral' scenario shows that total reserves would sit at £3m, which is just £1m above the acceptable minimum. A more pessimistic scenario shows that even this £2m would be used by the end of 2025-26. When a council is in this position, the S151 Officer (or Chief Finance Officer) has to consider their statutory role in advising the Council as set out in the above legislation. At this stage, there is still work to do to mitigate the size of the budget gap and factor in newly-arising information from the Government. However, based on what is known now, the S151 Officer would not be able to give assurance that the Council is in a position to balance the budget or hold an adequate level of reserves across the medium term MTFS.

Legal

Section 151 of the Local Government Act 1972 requires a suitably qualified named officer to keep control of the council's finances. For this council, the Director of Financeand this report is helping to carry out this function.

The requirements of other relevant statutes have been referenced within the body of this report, where relevant.

Corporate

The report details the financial and corporate risks of adopting this strategy and also the risk of inaction. The report also sets out the importance that any budgetary action must be taken in accordance with the council's corporate statement. Budgetary reductions are likely to diminish or delay the council's ability to meet its objectives as set out in the Statement, therefore resource or saving allocations must consider these priorities and the impact upon them.

Equality Act 2010 & Public Sector Equality Duty

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.

Protected characteristics: age, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

There are no direct equality implications arising from this report, however the delivery and implementation of and budgetary changes will consider this as part of the budget setting process and be reported to members in due course.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- *Growth*
- *Environment*
- *Communities*

1.0 Introduction

1.1 It should be emphasised that even the starting position (projected reserves at 1 April 2022) for this budget strategy is subject to change. Our 2020-21 accounts are still subject to audit and there is still more than a third of the current 2021-22 financial year remaining and forecasts typically shift over the later period of the year. Despite this we have to make an assumption now, to inform the budget strategy and the picture for reserves for the next four years. There also remains significant uncertainty regarding the external funding regime for local authorities. This includes Government policy regarding its funding of councils (e.g. continuation of supplementary funding provided during Covid; its Fair Funding Review) and policy on Business Rates (a “reset” of funding baselines, changes to reliefs, pools and proportions for districts/counties/Government). There may even be a Government rethink about Council Tax. All of these uncertainties mean that the projections in this report will be subject to change, but are based on the best information available at the time this report was written.

1.2 It should be noted that this strategy applies to the General Fund revenue budget only and that a separate budget strategy will be developed for the Housing Revenue Account.

2.0 Background and Context

2.1 The council was already under financial pressure before the Covid-19 pandemic. It has been well reported that the council has relatively low reserves and has experienced substantial reductions in Government funding in recent years, in-line with the government’s austerity agenda.

2.2 The last external audit report on the council’s 2019-20 accounts, reported to Governance & Audit (G&A) Committee in November 2020 stated:

> *“We have concluded that the level of savings needed represents a significant challenge for the Council combined with a low level of reserves, however the Council has plans in place to manage cost pressures and to identify and deliver savings. There is very little headroom to cope with any further cost pressures or income reduction without reducing reserves further. Whilst many other councils are in a similar position, action needs to be taken now to address the identified budget gaps in a planned and managed way. Without taking early action the Council will need to rely on further depleting reserve levels to balance its budget. Repeated reliance on reserves without taking action to address the underlying budget gaps will lead to the risk that either reserves levels become unsustainable or rapid service cuts are required to maintain a sustainable position”.*

2.3 The council did achieve the setting a balanced budget for 2021-22, although there is a substantial forecast overspend against this, albeit much of this is Covid related. The external auditor reported to G&A Committee in July 2021 that although further work is required for her to reach a definitive conclusion, and there were governance as well as financial concerns, based on the evidence reviewed to date she expects to issue a qualified Value for Money Conclusion.

2.4 Over the last decade the council has gone through a series of cost cutting, budget saving and transformation programmes in order to find the reduction in resources needed to balance the budget. After more than a decade of austerity, the council received £8.0m in less government funding in 2021 than we received in 2010, this equates to a 60% cut in funding. Our funding and spending budgets have reduced from £23m in 2010-11 to £17m in 2020-21, a £6m or 26% cash reduction, but after considering the impact of inflation over the period we now have less than half (45%) of the spending power that we had in 2010.

2.5 The final 2020-21 position is still to be audited. However, the likely final outturn suggests a £3.6m overspend, which was funded by Covid-related emergency Government grants. The year-end forecast at the mid-point of the financial year 30 September 202 is a £1.9m overspend. The 2021-22 overspend is mainly due to pressures related to Covid and as such can also be funded from Covid-related emergency Government grants, however this is projected to leave only £0.5m of Covid funding remaining to address any pressures that continue into the next financial year.

2.6 Based on the above, the council's earmarked reserves are projected to be £10.151m at 1 April 2022, plus the £2m general contingency which is the minimum the council needs to continue to operate.

2.7 Beyond the implications of Covid, the future for local government funding remains very uncertain, with very little information available on funding from April 2022 onwards. The Comprehensive Spending Review 2021 (CSR) was announced on 27 October 2021 and brought relatively positive news for local government as a whole. Local authorities will receive an additional £4.8bn in core grant funding over the next 3 years (roughly an additional £1.6bn in each year). This is equivalent to an average annual increase of 2.8% in cash terms and 0.6% after inflation. Furthermore, after factoring in the Government's assumptions for council tax, the sector's spending power should increase by 3.2% in case terms over the 3 year period, or 1% after inflation.

2.8 This is certainly welcome news, and much more positive than had previously been expected and a welcome reverse to the years of funding reductions local government has experienced. However until the local government finance settlement is announced it will not be known how this funding will be allocated to individual authorities across the country. This announcement is expected in early to mid December. For district authorities the risk is that much of this additional money will be allocated to upper-tier authorities, this remains a distinct possibility despite the separate allocations of additional monies that have been allocated and ring-fenced for social care.

2.9 Placing the CSR into context with the spending reductions that have been enforced for local government over the last decade, perhaps the Institute for Fiscal studies best summarized the current position for local government when they commented that “austerity over but not undone”.

2.10 In addition, the Government has previously announced a number of significant policy changes for local government funding. There were no new announcements on these reforms within the CSR, however the Secretary for State, Rt Hon Michael Gove MP, announced on 8 November 2021 that the planned move to 75% Business Rates Retention will now not go-ahead. Beyond this, the timing of the implementation of reform remains unknown. It is hoped that further information will be forthcoming from the local government finance settlement, but at present it is now thought to be more likely that implementation of these policies will be deferred at least for another year, to 2023-24 or later. The form and timing of these reforms is the single factor that will have the most significant impact on the shape of our Medium Term Financial Strategy and scale of savings required to close any consequent budget gaps. Further detail on this is provided in section 6.

3.0 Current Position

3.1 Three scenarios have been modelled for next year’s budget, with neutral, optimistic and pessimistic forecasts presented within this strategy. Section 3 sets out the assumptions applied to the neutral, or central, scenario. Table 1 sets out the draft budget position for 2022-23 under the neutral scenario.

Table 1: Draft Budget Position for 2022-23

Factor	£000	£000
Spending Pressures		
Pay award, increments, Living Wage, NI premium	857	
Non-pay inflation	276	
Proposed growth (service pressures, etc.)	1,177	
Repayment of debt and interest costs	19	
Sub-total		**2,329**
Savings, Efficiencies and Income Generation		
Fees and charges	-150	
Savings agreed in prior years	-25	
Proposed savings identified to date	-573	

Sub-total		**-748**
Funding Changes		
Reduction in government grants	603	
Business rates growth	-670	
Council Tax - 1.5% taxbase growth & £5 increase in Band D	-410	
Sub-total		**-477**
Reserve Movements		
Contribution from homelessness reserve	-125	
Contribution to reserves in accordance with GT recommendations	180	
Other Covid-related reserve movements	-468	
Sub-total		**-413**
Draft Budget gap		**691**

3.2 Table 1 shows that under the central neutral forecast there is a projected budget gap of £691k for 2022-23. However, it is recognised that this is a complex and dynamic situation and this, alongside other assumptions will be monitored and reviewed throughout the budget setting process. The following narrative sets out more detail behind the key components of the budget gap that are itemised in Table 1.

Pay and Remuneration

3.3 A 3% pay award has been assumed within the neutral scenario, however this is purely an assumption for the purpose of financial modelling and the actual pay offer will be subject to negotiation with unions. The 2022-23 budget has assumed that £857k additional resources are needed to fund increases in pay due to pay awards, increments, the National Living Wage (NLW) and the employer's National Insurance contribution 1.25% increase. Increases in the NLW now mean that staff on the lowest grade are paid in accordance with it. The NLW rate will increase by 6.6% from 1 April 2022 and the government has accepted the Low Pay Commissions recommendations to increase the NLW to two-thirds of median hourly pay by 2024. This equates to increases of approximately 6% a year over the medium term, with the NLW rising to £10.50 per hour by April 2024.

3.4 At this level, the NLW would significantly impact upon the integrity of the Council's pay structure. Pay differentials would be removed or eroded for roles that had been assessed under the equal pay framework to require different levels of pay because of the requirements of the role. As such, management are currently considering proposals to address this and develop a pay offer for 2022-23 that is both fair and affordable.

Contractual and Essential Price Increases

3.5 The neutral scenario the budget is centred on assumes a £276k pressure for non-pay inflation pressure, largely relating to increased utility costs and non-negotiable contractual commitments. Any other non-pay inflation growth proposed by a service or department over and above this must be contained by equivalent savings within that service or department, outside of and additional to the corporate savings target. To do otherwise at this stage would swell the budget gap further and place serious risk on the council's ability to deliver a balanced budget.

Growth

3.6 The proposed growth of £1.177m above comprises:

- £30k for Regeneration
- £402k for Waste Collection
- £85k for Legal
- £400k for Homelessness
- £160k for Your Leisure
- £50k reduction in income for Building Control
- £50k reduction in income for Licensing.

Fees and Charges

3.7 Elsewhere on this November Cabinet agenda are the proposed fees and charges increases for 2022-23. The approach to setting fees and charges will be as follows:

- The default position will be to increase fees and charges by at least 2% and fees and charges income budgets by at least 2%. The only exceptions to this will be:
  - Car parking, where parking fees are a product of any changes the Council wishes to make for traffic management purposes.
  - Where a service is being fundamentally reviewed as part of a review of its fees and charges income shortfall.
- It assumes all services that identified a significant projected shortfall last year and this year, will take action to try to eliminate the shortfall. This might be by increasing charges by more than 2% if the market will tolerate it and regulations allow; or by restructuring charges; or by fundamentally reviewing the service. This will enable the overall budget strategy to presume that the working assumption is sustainable (i.e. that the £100k corporate funding for the shortfall will be enough).

It is anticipated that this will generate approximately £150k of income.

Savings

3.8 The savings of £573k identified to date include:

- £280k from the removal of vacant posts across the council's staffing establishment
- £25k from other minor staffing changes (e.g. agreed reduction in hours)
- £57k from contractual savings
- £50k from a reduction in the amount we set aside for bad debt
- £33k increase in staffing costs apportioned to the HRA
- £30k additional income for bulky waste
- £33k of additional rental income
- Other minor budget changes

Council Tax & Business Rates

3.9 There is significant uncertainty for both key income streams. Collection rates are down but perhaps not as far first expected at the outset of the pandemic, however shortfalls in collection are still expected on both Council Tax and Business Rates, although the size of these shortfalls still can not be estimated with certainty.

3.10 The impact of Covid-19 on the council's Council Tax income could manifest from the ending of the furlough scheme, and increased unemployment from an economic downturn (resulting in more Council Tax Support (CTS) claimants and non-payment by those not in receipt of CTS). Under the central scenario the council tax base is expected to increase by 1.5% and a £5 increase in the band D equivalent is also assumed. This results in an additional £410k of income compared to 2021-22.

3.11 Business Rates income could similarly be hit by business failures from an economic downturn. There is also the cliff-edge of the end of Business Rates relief for small businesses and those in retail, leisure and hospitality, with those businesses expected to start paying rates again. It is also highly unlikely that there will be a business grants scheme in 2022-23. There is also the prospect of possible policy changes, as explained in more detail in section 6, such as the re-basing of Business Rates. This could have a significant adverse impact on Kent, and Thanet. This backdrop may lead to the ending of the Kent Business Rates pool, which has been beneficial to TDC.

3.12 The budget strategy assumes that all the projected 2020-21 and 2021-22 losses of Business Rates and Council Tax can be contained within the Equalisation reserve.

Reserves

3.13 Reserves do need to be replenished and the external auditor has emphasised this. On 2 November 2021 Council agreed to the external auditors statutory recommendations to:

> *"Revisit the financial plans and identify additional savings plans to address the further cost pressures created in resolving the grievances and whistleblowing complaints"*

3.14 Consequently the budget strategy has included an assumption of a £180k reserve contribution each year across the MTFS.

3.15 A contribution of £125k from the homelessness reserve is also included in the budget strategy to mitigate the impact of the pressure from increasing costs in this service area. In addition, there are contributions from covid-related reserves to manage the impact of prior year council tax and business rate deficits that are accounted for through the collection fund.

4.0 Pessimistic scenario

4.1 The neutral scenario has been varied as follows for produce a more pessimistic draft budget forecast for 2022-23:

- The neutral scenario assumes a 3% increase in pay and variable inflationary increases in non-pay inflation with a basic increase of 2%. In this scenario it is assumed pay increases by 4% and non-pay will rise 4% in 2022-23 (only), which adds costs of £170k and £138k respectively.
- In the neutral scenario, commercial waste is assumed to increase its net surplus by £25k in 2022-23 and then a further £25k in 2023-24, as per a previous Council decision. It is assumed this will not be achieved in the pessimistic scenario.
- Fees and charges are assumed to generate £150k in the neutral scenario, whereas an assumption that they will generate £120k has been built into this scenario, i.e. an £30k difference.
- The neutral scenario assumes that we will receive the last £100k of Revenue Support Grant, which was meant to disappear some years ago, but has been 'rolled-over' by Government for the last two years. Here, we assume it will not be received.
- The neutral scenario an increasing proportion of Business Rates growth can be allocated to the budget next year. The pessimistic scenario assumes a standstill in our rates income for 2022-23.
- The neutral scenario assumes 1.5% growth in the Council Tax base and a £5 increase in Council Tax bills. This scenario assumes a £5 increase in bills, but no growth in the base, equivalent to a £160k income reduction.

4.2 The above changes total £1.317m so would increase the 2022-23 budget gap to **£2.007m**. The table below summarises this:

Table 2: Pessimistic Scenario

Description	Neutral scenario	Pessimistic scenario	2022-23 Cost £000
Pay inflation	Base assumption	1% increase on neutral	170
Non-pay inflation base increase	2% in 2022-23	3% in 2022-23	138
Commercial waste income	£25k additional	None	25
Fees and charges increased income	£150k increase	£120k increase	30
Revenue Support Grant	£100k	None	100
Business rates growth	No reform and £670k increase on last year	Standstill	670
Homelessness Funding	£24k increase	Standstill	24
CT base growth	1.5%	None	160
Total			**1,317**

5.0 Optimistic scenario

5.1 The following variations to the neutral scenario could be applied to produce a more optimistic forecast for the draft 2022-23 budget:

- A 3% increase as the pay award has been assumed in the neutral scenario for 2022-23 and then 2% throughout the remaining three years of the MTFS. Here, it is assumed there will be a 2% increase in 2022-23 but then a 1.5% increase thereafter. This saves £170k in 2022-23 and then around £88k per annum from 2023-24.
- Fees and charges are increased at a higher rate for 2022-23, partly reflecting the recommendations of the Fees and Charges Cabinet Advisory Group (CAG). The CAG have endorsed a 3% increase be applied, in comparison to the 2% increase that was initially proposed.
- In the optimistic scenario the retained business rates budget is increased further. This would increase income for 2022-23, this is a higher risk strategy and leaves the council more exposed to any income losses in future years from local government funding reform.

- The neutral scenario assumes 1.5% growth in the Council Tax base and a £5 increase in Council Tax bills. This scenario assumes a £5 increase in bills, but 2% growth in the base, worth an extra £50k.

5.2 The above changes total £385k so would reduce the 2022-23 budget gap to only **£56k**. The table below summarises this:

Table 3: Optimistic Scenario

Description	Neutral scenario	Optimistic scenario	2022-23 Saving £000
Pay inflation	2% in 2022-23	1.5% from 2023-24	-170
Fees and charges	£150k increase	£200k increase	-50
Business rates growth	£670k increase on last year	£1,005k increase on last year	-335
Homelessness Funding	£24k increase	£53k increase	-29
CT base growth	1.5%	2.0% increase	-50
Total			**-654**

6.0 Funding Reform

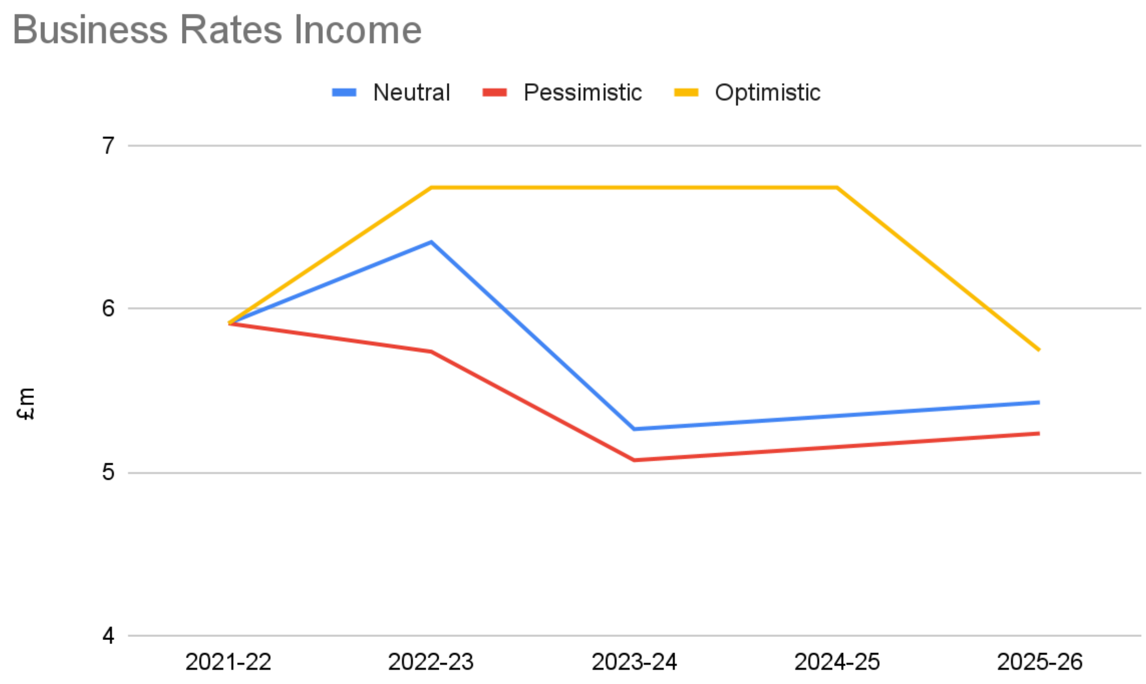
6.1 As previously referred to and can be seen in the three scenarios presented above, the reform of local government finance is likely to have the most profound effect on the Council's finances across the medium term.

6.2 Key areas of reform include:

- **Resetting of baselines -** from which Business Rates funding allocations will be determined, the impact being that councils would lose the growth in future that they have accumulated each year since 2013-14.
- **Fair Funding Review** - to examine the relative needs of councils and the allocation of resources between them. This could result in more or less funding being allocated to Thanet depending on the outcome of this review.

6.3 To avoid going into too much technical detail surrounding these reforms, in simple terms the outcome of these reforms mainly puts at risk the amount of funding the council can retain from business rates.

6.4 To illustrate this the following chart below shows the amount of business rates income that could be included in our budgets depending on different outcomes and timing of the reforms, as modelled under our three different scenarios.



6.5 The starting point in 2021-22 is obviously the same for all three scenarios, as the budget for the current financial year has already been set. The budget position of **£5.9m** was based on a baseline funding level (retained income that is guaranteed based on a formula) of £5.055m, with a further £850k of income included from additional income retained from growth in our business rates base. In simple terms the more business premises that are established in Thanet, the more our business rates base grows and the more of this income we are allowed to retain under the Business Rates Retention system. In recent years we have included 50% of this expected growth in our base budget, the remainder has not been budgeted for because of the uncertainty and volatility associated with its collection. The lines then diverge from 2022-23.

6.6 Under the neutral scenario (as shown on the blue line), budgeted business rates income increases by £670k in 2022-23. This is in part due to an increase in our baseline funding level (the guaranteed part) of about £100k, taking the baseline to £5.155m. The increase in budgeted income however is mainly due to the inclusion of a larger proportion of growth that is being factored into the base budget. Based on last year's numbers we are expecting total growth for next year to be c.£1.6m, and under this scenario we are allowing for 75% (up from c.50% in the current year) of it to be included in the budget which is equivalent to £1.252m. Adding this sum to the £5.155m baseline funding level gives a total income budget of **£6.407m**, which is a £670k increase on 2021-22.

6.7 Under the pessimistic and optimistic scenarios the proportion of growth included is varied to 90% and 35% respectively, reflecting differing levels of risk that could be accommodated in these scenarios.

6.8 Moving forwards across the medium term the three scenarios then vary depending on the timing and scale of local government reform. Under the neutral and pessimistic scenarios the reform occurs in 2023-24, as illustrated in the chart with steep reductions in income in these years. However, in the more optimistic scenario, the reform comes much later in the spending review period at 2025-26, however it can be seen that it still has a significant impact on our income, with the levels retained by the authority only just marginally above the neutral and pessimistic scenarios.

6.9 In summary, current modelling is indicating that TDC is expected to be a net loser from funding reform even under the most optimistic scenario, but also should relatively benefit from delayed implementation of reform. However, it must be stressed that these are only three possible scenarios in a wide range of varied and possible outcomes. It is of course possible that the reform may provide a significantly different outcome to any of the three scenarios presented and that our income could be much higher or lower as result. These forecasts are therefore intended to illustrate the extent our business rates income may vary over the medium term and assist with planning for possible and differing eventualities.

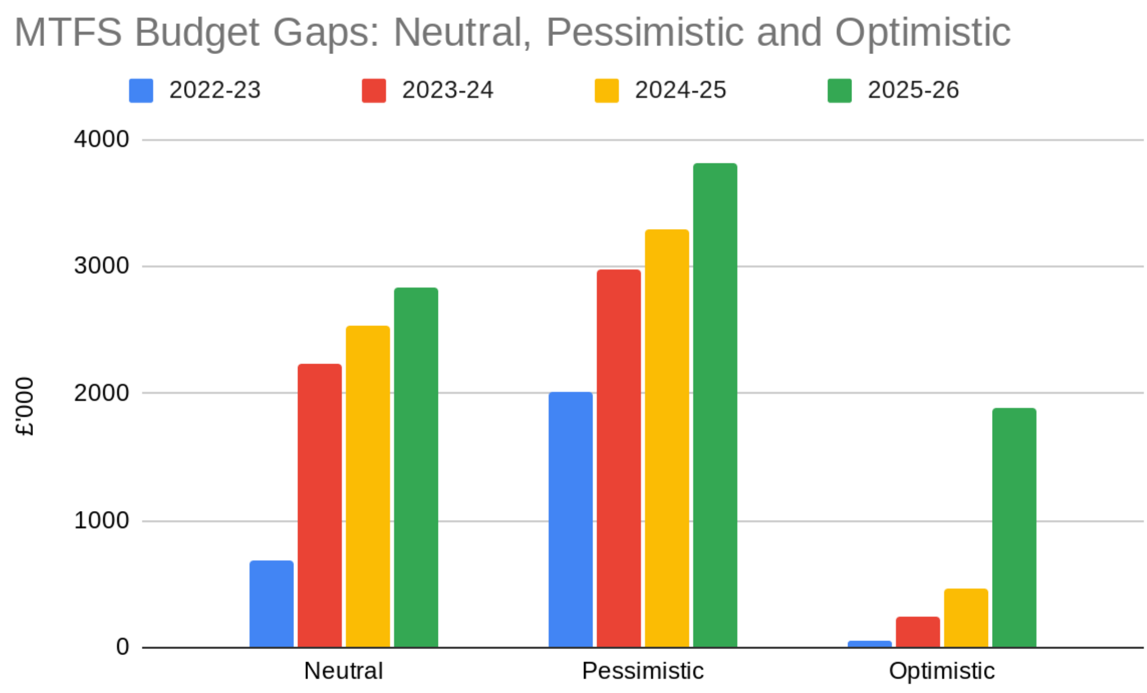
6.10 Please note, these forecasts have been informed by modelling undertaken by the independent funding advisory service that the council subscribes to.

7.0 Medium Term Financial Strategy

7.1 The Council's MTFS has been built factoring the business rate modelling assumptions explained in section 6 and the other key assumptions that have been applied to the neutral, optimistic and pessimistic scenarios. Table 4 and the chart below sets out the budget gaps forecast across the medium term as varied under the different scenarios.

Table 4: MTFS

	2022-23 £'000	**2023-24 £'000**	**2024-25 £'000**	**2025-26 £'000**
Neutral	691	2,229	2,530	2,835
Pessimistic	2,008	2,976	3,291	3,820
Optimistic	60	250	468	1,887



7.2 Table 4 and the chart show under the neutral scenario the budget gap increases to above £2m from 2023-24 onwards, mainly due to the aforementioned funding reforms. Under the pessimistic scenario the gaps have a similar profile but are bigger in size across the timeframe, compared to the central forecast. Whereas under the optimistic scenario the budget gaps are relatively modest and should be containable until 2025-26 when funding reform is assumed in this model.

7.3 As such the section 151 officer advises that, in addition to addressing the immediate challenge of finding sufficient savings to close the 2022-23 budget gap, the Council identifies longer-term budget savings in excess of £2m that can be implemented if and when necessary to close the forecast budget gaps presented above. This exercise should be undertaken at pace, to ensure the Council is prepared to react proactively to the financial challenges we face over the medium term.

8.0 Estimated impact of the above on reserves

8.1 Reserves of £10.151m as at 1 April 2022 have been estimated, taking into account the opening position at the start of this year (2021-22), along with assumptions about the planned use of a number of earmarked reserves this year based in part on the 2021-22 forecast reported to Cabinet.

8.2 The reserves that have been presumed to be used this year, or not available, are as follows:

- **Covid reserves** - both the proportion of general Covid funding that will have been used to fund the 2020-21 and 2021-22 overspends, and the technical business rates funding.
- **Lottery reserve** - even if this isn't used this year, it has been assumed not to be available to fund anything other than projects in keeping with the Lottery criteria.
- **East Kent Services reserve** - this will be needed to fund some legacy issues of EKHR and the potential in-sourcing of ICT.
- **Business Rates Growth** - £2m of this reserve is committed for Parkway.
- **Equalisation Reserve** - £500k of this reserve is earmarked for potential shortfalls in business rates and benefits.
- **Decrim reserve** - even if this reserve of £693k isn't used this year, it has been assumed not to be available to fund anything other than what is allowed under the regulations.

8.3 This would leave £10.151m in earmarked reserves as well as the £2.011m general reserve at 1 April 2022.

8.4 Assuming the budget gaps shown in the MTFS (as shown in section 5) are not addressed, then the projections below present the impact on reserves of the neutral, pessimistic and optimistic assumptions:

Year	**Neutral £000**	**Pessimistic £000**	**Optimistic £000**
Balance 1st April 22	10,151	10,151	10,151
2022-23 budget gap	*691*	*2,008*	*56*
Balance 1st April 23	9,460	8,142	10,095
2023-24 budget gap	*2,229*	*2,976*	*250*
Balance 1st April 24	7,231	5,166	9,845
2024-25 budget gap	*2,530*	*3,291*	*467*
Balance 1st April 25	4,701	1,875	9,378
2025-26 budget gap	*2,835*	*3,820*	*1,886*
Balance 1st April 26	1,866	-1,945	7,489
Reduction	***8,284***	***12,096***	***2,662***
% Reduction	*81%*	*119%*	*26%*

8.5 In all three scenarios the council's reserves are diminished significantly, even in the optimistic scenario reserves reduce by over a quarter. Whereas in the pessimistic scenario all of our reserves are used and effectively they go negative, an event that in reality cannot legally be allowed to arise.

8.6 The MTFS projections summarised above set out the use of reserves over the four year period. These reserves are all "earmarked". They have previously been deemed to be needed for such events and demands as:

- Housing intervention and homelessness.
- Unforeseen movements in business rates, council tax and benefits.
- Economic development.
- IT/digital projects.
- Repairs to our property portfolio.
- VAT expenses.
- Capital projects, e.g. if a capital scheme is delayed, the reserve helps carry forward the funding for the scheme in a future year.
- Strategic reserve.
- Crematorium reserve, where we set aside funding to replace the burners.
- Risk reserve, to fund unforeseen expenditure (of which there are regular occurrences).
- Elections reserve, where we set aside funding for elections.
- Local Plan reserve, where we set aside funding for exceptional LP costs.

8.7 Under all scenarios action would need to be taken to prevent our earmarked reserves being utilised to fund the forecast budget gaps. However, if the projections as currently set out were to occur, then most if not all of the above reserves would need to be used to fund the budget shortfalls if this action was not forthcoming.

9.0 How to close the gap

9.1 At this stage in the budget setting cycle, there is an estimated £671k budget gap for 2022-23. These issues can be considered as on-going or structural issues and as such permanent solutions are required to address them; unlike the temporary pressures faced by Covid, it is not sustainable or feasible to address these permanent budget pressures by drawing down on our reserves.

9.2 The following sections set out action that will or can be taken to balance the 2022-23 budget and 2022-26 MTFS.

Savings

9.3 There are few obvious means of finding this level of savings. To date savings totalling £573k have been identified (this has already been taken into consideration within the

£671k budget gap) that can be implemented with relatively limited impact on the operation of our services. These have been identified primarily through two exercises.

9.4 **10% Savings Exercise -** Firstly, each Service Director has been tasked with identifying savings to the value of 10% of their controllable budgets. This excludes budget lines that are outside of their control, such as overheads or recharges, or where there are contractual commitments that cannot be broken without incurring substantial penalties. The controllable budgets total £24m and as such a 10% reduction would yield savings exemplifications of approximately £2.4m. However, after a decade of austerity our services have been subjected to a series of efficiencies and savings reviews and as such there are very few remaining opportunities to implement savings without having an effect on service configuration and consequently our residents, customers or staff. In other words, almost all the 'easy-wins' are gone and almost all savings proposals will involve difficult decisions to be made. To date, approximately £250k of such relatively straightforward savings have been identified, but further work needs to be undertaken to determine the feasibility of delivering these savings and the details of these will be discussed with Cabinet informally over the coming weeks and months.

9.5 **Vacancy Review -** Secondly a review of all vacant posts on the staffing establishment has been undertaken. Some posts have been vacant for a substantial period of time and as such the deletion of these roles is anticipated to provide a saving of approximately £280k. Again, further work needs to be undertaken to ascertain how deliverable these savings are and discussion will commence with Cabinet informally over the coming weeks and months.

9.6 Some suggestions for further savings are set out below:

- A piece of work can be carried out to identify what the cost of a minimal statutory service would be, across the council. This would help inform a situation where the council did not address the budget crisis, and the only option was to make contractual payments and deliver a skeleton statutory service.
- The Head of Paid Service to consider a senior management restructure which would potentially generate a saving in excess of £100k.
- Benchmarking - assessing the cost of service to other comparable authorities to identify areas of relatively high spending
- Zero based budgeting - budgets are typically built by making incremental changes to the previous year's budgets. Zero based budgeting takes an alternative approach, starting from scratch, a 'zero-base', and builds the budget for the service without any consideration of previous spending. However, this is a resource and time consuming process and as such can only be applied to a limited number of services at a time.
- Service Redesign - transformational change and considering radical change to the design of the service that we deliver.

Other options

9.7 Other options that will be considered to generate savings outside of this exercise include:

- **Voluntary Redundancies** - ask for staff for expressions of interest in voluntary redundancies. The advantage of this proposal is that staff who volunteered to leave the organisation (either because they wish to or have the financial means to do so) are made redundant as opposed to those who may not via compulsory redundancies. However, it can lead to a fragmented and uncoordinated approach to the delivery of savings, as the posts of those leaving through voluntary redundancy would be deleted, in order to achieve the budget saving. Any expression of interest would be subject to management sign-off.
- **Flexible use of Capital receipts -** The Council could seek authority from HM Treasury to use capital receipts to fund efficiencies or transformation programmes that deliver savings. This will be somewhat limited by the availability of capital receipts.

Medium Term Pressures

Due to the scale of the forecast budget gaps across the medium term, it is essential that the council identifies longer-term budget savings in excess of £2m that can be implemented if and when necessary to close the forecast budget gaps presented above. This exercise should be undertaken at pace, to ensure the Council is prepared to react proactively to the financial challenges we face over the medium term.

10.0 Corporate Statement and Priorities

10.1 It is important that any action taken to address the financial position is done so in accordance with the Council's Corporate Statement for 2019-24 that was approved by Council on 10 October 2019. Budgetary reductions are likely to diminish the Council's ability to meet its objectives as set out in the Statement, therefore resource or saving allocations must consider these priorities and the impact upon them.

10.2 The plan sets out the council's programme of priorities and identifies three core aims that will help focus efforts towards achieving the vision:

Growth: We will continue to ensure we work to consider new ways to generate income and invest our current resources. Delivering a council that is financially strong to discharge its services and invest in the growth of the district.

Environment: Having a clean and well-maintained environment remains important to us. We will be clear with our residents on what we will do and what our asks of residents are - cultivating a shared responsibility approach. Delivering a clean and accessible living environment, maintaining an emphasis on prevention but where necessary we will use an enforcement approach.

Communities: Through effective partnership working with both the public sector agencies and the community, we will provide leadership and direction across the district and the region to ensure everyone is working to the same goal. Delivering high-quality housing, safer communities and enhancing the health and wellbeing of our residents.

Climate Change

10.3 The Council passed a motion to declare a Climate Emergency on 11th July 2019. The council resolved to:

- Declare a climate emergency;
- Pledge to do what is within our powers and resources to make Thanet District Council carbon neutral by 2030, taking into account both production and consumption emissions;
- Call on Westminster to provide the powers and resources to make the 2030 target possible.

10.4 Going forward the Council has a role as:

- A service provider by delivering services that are resource efficient, less carbon intensive, resilient and that protect those who are most vulnerable to climate impacts.
- An estate manager by ensuring that our own buildings and operations are resource efficient, use clean energy, and prepared for the impacts of a changing climate.
- A community leader by helping local people and businesses to be smarter about their energy use and to prepare for climate impacts.

10.5 It is inevitable that further resources will need to be prioritised to deliver the council's climate change objectives.

11.0 Other Risks

11.1 In addition to the residual Covid-related risk, there are a number of other risks and variables that officers and members must consider when preparing the 2022-23 budget. In particular, the Director of Finance in his capacity as Acting Section 151 officer must have assurance that a balanced budget will be delivered. Assurance must be provided that a balanced budget is built upon sound and robust estimates and that adequate reserves are in place to mitigate the financial and non-financial risks the council faces.

11.2 The other key risks that will be considered within the budget setting environment are:

- Non-delivery of savings
- Local political stability
- Ongoing impact of Brexit
- Level of government financial support
- Underestimates of inflation especially that of energy.

12.0 Next Steps

12.1 A draft timetable and activities similar to last year is set out below.

Date	Action/decision
September 2021	Early Member engagement regarding the draft budget strategy, initial 2022-26 budget gap and financial pressures/opportunities, and early proposals to fund the gap
	Cabinet approves the 2022-23 Budget Strategy and 2022-26 MTFS
27 October 2021	Government Spending Review giving an indication of local government spending levels
October - December 2021	Updates on budget progress to CMT, Cabinet/CMT and Cabinet Budget briefings for all members
18 November 2021	Cabinet agrees the budget strategy Cabinet agrees the 2021-22 budget monitoring report no.2 Cabinet agrees the 2022-23 fees and charges
December 2021	Government draft financial settlement for 2022-23 giving an indication of local government funding
December 2021	Council approves fees and charges
Christmas	Draft budget report to Cabinet
January 2022	Cabinet approves the 2022-23 budget and 2022-26 MTFS (with OSP and then a further Cabinet in January if required). Cabinet agrees the 2021-22 budget monitoring report no.3
February 2022	Council approves the budget

Contact Officer: *Chris Blundell, Director of Finance and Deputy Section 151 Officer*

Reporting to: *Madeline Homer (Chief Executive)*

Corporate Consultation

Finance: *Not applicable*
Legal: Estelle Culligan, Director of Law and Democracy