

Report to Council

Subject: Council Tax 2019/20
Date: 4 March 2019
Author: Leader of the Council

Wards Affected

Borough wide.

Purpose

This report summarises the Council's General Fund Revenue Budget for 2019/20. The report also includes information about the Council's external funding support, and sets out the basis from which decisions can be made regarding the Council Tax level for 2019/20.

Key Decision

This is a key decision.

Recommendations:

That:

- (1) Members determine the application of fund balances, or contributions to balances.
- (2) Members approve the calculations for 2019/20 required by sections 31 to 36 of the Local Government Finance Act 1992 and the amounts set as Council Tax for each category of dwelling.

Background

The Council Tax Process

1.1 The Council Tax is a tax on property, with personal elements in the form of

discounts for dwellings with fewer than two relevant residents, and reductions awarded under the approved Council Tax Reduction Scheme. All dwellings are listed in one of eight valuation Bands. The headline Council Tax is calculated for a Band D property and the tax for each of the remaining bands is calculated as a proportion of this amount. The lowest, Band A, is two thirds of Band D and the highest, Band H, is twice Band D and three times Band A. The proportions are therefore:

Band A 6/9	Band E 11/9
Band B 7/9	Band F 13/9
Band C 8/9	Band G 15/9
Band D 9/9	Band H 18/9

- 1.2 The Council and its Members have several legal duties when making decisions in relation to the revenue budget and the Council Tax. The Council must:
 - Act in accordance with its statutory duties and responsibilities;
 - Act reasonably;
 - Not act in breach of its fiduciary duty to its Ratepayers and Council Taxpayers.
- 1.3 As part of the Budget and the Council Tax setting process, the Council is required by the Localism Act 2011 to calculate its Council Tax Requirement for the year. These calculations must be made before 11 March (ie. by midnight on 10 March) although they are not invalid merely because they are made on or after this date. However, until the calculations are made, any attempt to set the Council Tax will be treated as null and void. The Council has a clear legal duty to set a Council Tax and a resolution not to do so would be unlawful, being in breach of Section 30 of the Local Government Finance Act 1992. Similarly, a resolution to set a Council Tax that deliberately did not balance the various calculations would also be unlawful.
- 1.4 The final stage of the Council Tax setting process is for the Council as billing authority to set the overall Council Tax for each Band. Whereas the billing authority and major preceptors each calculate their own budget requirements, basic amounts and the amounts of each Band, the setting of the Council Tax is solely the responsibility of Gedling Borough Council as billing authority.
- 1.5 Formal notification of precept requirement has not yet been received from Nottinghamshire County Council. Further details are provided below at paragraph 2.5.7 and final information will be given at the meeting. Amounts in respect of parish precepts are also shown below at paragraph 2.5.8.

Settlement

- 1.6 As reported to Cabinet on 14 February 2019, during the settlement process for 2016/17 the Government offered all Councils a four year funding settlement for 2016/17 to 2019/20 conditional upon the publication of an efficiency plan. Gedling, along with all but ten other Councils, accepted this offer in order to gain funding certainty and to allow more proactive planning of service delivery.
- 1.7 The Council's Settlement Funding Assessment (SFA) for 2019/20 totals £3,027,100 represented solely by estimated retained business rates. The SFA represents a cash reduction of £317,100 or 9.5% from the comparative figure for 2018/19.
- 1.8 The cumulative settlement reduction over the 2016/17 to 2019/20 spending review period equates to 39%, or £1.91m in cash terms, when compared to the 2015/16 base position. The total reduction in settlement when compared to the amount received in 2010/11 will be 66%, or £5.8m, by 2019/20. Settlement now accounts for 26% of Gedling's net budget, compared to 60% in 2010/11.

New Homes Bonus

- 1.9 The New Homes Bonus (NHB) was introduced in 2011/12 and is funded from the centrally retained share of Business Rates income. It is paid as a separate non ring-fenced grant, which is not part of the SFA. When it was introduced, NHB was intended to be a predictable, permanent and enduring feature of local government funding. The principle is to reward authorities for each new property completed within their boundary, and to offer an additional reward for returning empty properties back into use.
- 1.10 During 2016/17, the Government confirmed changes to NHB with the aim of delivering savings to fund pressures in social care. Changes included a reduction in the length of time for which NHB is paid, from six years to four years. A baseline growth threshold of 0.4% was also introduced, recognising that some housing would be built regardless of NHB. Councils now need to achieve growth **greater** than 0.4% in a year before **any** NHB is receivable for that year. The Government may change the threshold further in future years if there is a significant increase in housing growth. The affordable homes premium does however continue, irrespective of the baseline, but this is financially insignificant.
- 1.11 There remains much uncertainty around the future of the New Homes Bonus and it is considered prudent for medium term financial planning to assume that there will be zero NHB awards available to support revenue financing going forward. The impact of this on the 2019/20 budget is a

further grant reduction of £375,000.

Core Spending Power

- 1.12 The Government forecasts the Council's cumulative reduction in overall core spending power, which includes SFA, NHB, and council tax receipts (assumed at the maximum possible increases), to be 21.5% by 2019/20 when compared to 2015/16, **making Gedling the 2nd worst affected council in England.**

Referendum Limit

- 1.13 The Localism Act 2011 gives powers to the local community to either endorse or veto Council Tax rises that are above a limit which is to be set annually by the House of Commons. If a local authority decides to implement an increase above the Government set limit this will trigger a referendum so that local voters can either support or reject the proposed rise. The referendum limit for 2019/20 for all shire districts has been set at a 3% or £5 increase, whichever is greater. Any Council which sets an increase greater than this, and does not get support from the electorate via the referendum, will have to revert to a Council Tax level that is compliant, and bear the cost of re-billing its residents.

Consultations

- 1.14 Alongside the 2018/19 settlement the Government issued a consultation on the implementation of a "Fair Funding Review" in April 2020. Responses to this have been considered by the Government and a further consultation paper, "A Review of Local Authorities' Relative Needs" was issued alongside the 2019/20 settlement. The aim remains to reassess funding baselines for local government, the methodology of which was introduced over ten years ago and has not been updated since the introduction of the business rates retention system in 2013/14. The latest consultation proposes to simplify the assessment of relative needs; consider the type of adjustment that will be made to the relative needs assessment to take account of the relative resources available; and proposes a set of principles that will be used to design potential transitional arrangements.

Proposal

2.1 Proposed Portfolio Budget 2019/20

The proposed budgets for 2019/20, as recommended by Cabinet on 14 February, are summarised in the following table:

Portfolio:	£
Community Development	1,501,200
Housing, Health and Well-being	2,347,500
Public Protection	1,453,900
Environment	4,516,600
Growth and Regeneration	1,242,900
Resources and Reputation	1,379,100
Net Portfolio Budget 2019/20	12,441,200
Transfer to/(from) Earmarked Reserves	(765,200)
Base Budget 2019/20	11,676,000

2.2 Consultation with Non-Domestic Ratepayers

In accordance with Section 65 of the Local Government Finance Act 1992, consultation with representatives of Non-Domestic Ratepayers has been undertaken. No responses were received by the end of the consultation period.

2.3 The General Fund Balance

The General Fund balance at 1 April 2019 is estimated to be £4,892,000.

If a Council Tax freeze is approved, a contribution from balances of £1,225,400 will be required in 2019/20. This will allow prudent provision for the support of General Fund expenditure in the medium term. Members will need to consider the use of balances when determining the Council Tax for 2019/20.

2.4 Robustness of Estimates

2.4.1 Sections 25 and 26 of the Local Government Act 2003 place a personal duty on the Chief Financial Officer to make a report to Council when considering its budget and Council Tax. The report must deal with the robustness of the estimates and the adequacy of reserves.

The Act requires Members to “have due regard to the report in making their decisions”. Where this advice is not accepted, it should be formally recorded within the minutes of the Council Meeting.

Under Section 25 of the Local Government Act 2003, the Section 151

Officer is required to provide a commentary assessing the robustness of the estimates when Cabinet and Council are considering the budget proposals.

The key strategic risks in considering the 2019/20 revenue budget proposals and Capital Programme in the context of the Medium Term Financial Plan were reported to Cabinet on 14 February, and are also detailed in paragraphs 2.4.2 to 2.4.8 below.

2.4.2. Financial Settlement/Funding Streams

The Comprehensive Spending Review of 2015, Autumn Statement 2016 and Local Government Finance Settlement December 2017 identified a number of significant changes to future local government financial settlements and grant funding. The overall message is one of continuing financial restraint which in itself creates some degree of inherent risk. The following specific items carry a particular risk for this authority:

Business Rates Retention: The Government intends to introduce 75% business rates retention by 2020/21. It continues to pilot the 100% business rates retention scheme but it is not yet clear when this might be introduced. It was initially intended to introduce a Bill into Parliament early in 2017 for introduction to coincide with the phasing out of Revenue Support Grant, but this has been delayed. The four-year settlement ends in 2019/20 and it is a concern that there is no clarity over funding levels after March 2020. This hampers meaningful financial planning at a time when demand pressures are increasing. The intention of the retention scheme is that it will be fiscally neutral and in order to achieve this, additional responsibilities will need to be transferred to Local Government. Any retention of Business Rates will still require a mechanism to ensure funding is distributed in respect of need, which will create winners and losers, and this will be determined by the Fair Funding Review. With an obvious emphasis already included in the Spending Review to support upper tier authorities in respect of their funding for social care, there is a real risk that district councils could lose further under any new allocation process.

In addition, care will be needed to ensure that new transferred responsibilities are capable of being fully funded in both the short and long term.

The current retention of Business Rates has shown the volatility of this funding in respect of the appeals process, the prediction of future growth, and the potential for significant local impact where a large business relocates or closes. These changes are likely to require local authorities to hold higher levels of reserves in the future.

New Homes Bonus (NHB): there is a significant impact arising from changes to this funding stream due to the introduction of a 0.4% growth baseline, resulting in a zero NHB for both 2017/18 and 2018/19 years and a comparatively small award for 2019/20. Whilst there is still an opportunity to receive NHB in the future if housing growth levels increase, it is considered that there is a significant downside risk to this arising, and it is no longer prudent to rely on this funding stream to support the revenue budget. Therefore the Medium Term Financial Plan (MTFP) assumes that future payments will be zero. In the event that the Council does receive some NHB in the future, this will be used to support projects or be transferred to balances to support future budget setting.

Council Tax: The Government's Core Spending Power figures are based on the assumption that Council Tax will be increased by 3% or £5 per annum whichever is greater, and that significant growth in the tax-base will be achieved by the creation of additional hereditaments. These may be optimistic assumptions and in any case leave very little room for local discretion to set a higher Council Tax in order to plug any funding gaps. The MTFP assumes that a £5 or 3% increase will be applied between 2020/21 and 2023/24, but the actual increase will be determined on an annual basis by Council. Any increase below the £5 or 3% will require an increase in the efficiency targets to ensure that a balanced budget can be set.

Economic Growth/Inflation: The Chancellor has based future spending decisions on estimates of future growth and an assumption on inflation. Although these figures are supported by the independent Office of Budget Responsibility there is a degree of uncertainty in these figures, especially following the Brexit decision and the ongoing uncertainties surrounding it. As there is now more uncertainty of future Settlement funding due as we reach the end of the current four year settlement without an understanding of what the Fair Funding Review or business rates retention will bring, any pressure arising from an economic downturn would need to be managed within local resources, ie. from further budget reductions or efficiencies. A commercial strategy is being implemented to support the achievement of a balanced budget through new income streams and increased efficiency, to ensure a minimum adverse impact on service levels.

Inflation assumptions have been incorporated in the MTFP, including pay awards. The Chancellor removed the 1% public sector pay cap and this has also impacted on pay expectations in local government. In Gedling the increase equated to an average of 3% for 2018/19 and 3.1% for 2019/20, slightly higher than the national average of 2.8%. Pay awards of 2% have been included for 2020/21 to 2023/24. It is considered that these are realistic assumptions but uncertainties in the economy present a risk that future awards could be higher.

- 2.4.3 A minimum balance of 7.5% of total projected net expenditure on the General Fund is recommended by the Chief Financial Officer to be a prudent amount given the scale of the business conducted by the Council. The external auditor regards this level of balance on the General Fund to be satisfactory, and it is also appropriate to reflect uncertainties in the financial position in the medium term. The minimum balance required for 2019/20 is £875,700.
- 2.4.4 The surplus or deficit on balances in the MTFP shows amounts above or below the recommended minimum General Fund balance in any one year. Current spending plans show a surplus of £2,790,900 in 2019/20, declining to £795,600 by the end of 2023/24. Achievement of this position is reliant upon existing and new efficiency plans being progressed and delivered during the period of the MTFP. Underlying this is an annual deficit between the amounts of income expected and anticipated expenditure, which needs to be managed beyond the five-year horizon, but this is significantly reduced to manageable levels with the inclusion of the efficiency programmes. However, this still does not leave significant capacity to manage future budget and inflation pressures that may arise, which will have to be managed by further budget reductions.

The Council has a substantial programme of budget reductions planned for delivery. Whilst risk provisions and transformation funds have been approved, which mitigate the risk of non-delivery, and delivery of the programme is progressing well, the remaining scale of the programme, which also contains more projects that contain uncertainties inherent in more innovative commercial approaches, presents an increasing downside risk to successful delivery. Programmes are regularly monitored, and progress reported to Cabinet, to manage this risk.

The challenges that lie ahead remain equal to those in previous years, but this plan is considered robust. Gedling is not alone in facing this challenge, it is a national problem, and it is better placed than most councils to react and develop strategies to meet the set efficiency targets.

- 2.4.5 Initiatives introduced to manage within reduced resources bring increased risks both financially and in terms of service delivery. For example:

Reduced maintenance budgets: these can be accommodated in the medium term but may bring pressures in the longer term as major capital investment plans may need to be accelerated as assets deteriorate faster;

Earmarked reserves: reserves for specific purposes and risk management have been reviewed and will be managed at minimum requirement levels providing less scope for managing emerging risks. However, additional reserves have been set aside for the potential staffing redundancy and transfer costs in respect of the move of rent allowance payments to the

Universal Credit system, which has again been delayed.

- 2.4.6 The Council continues with activities undertaken in association with a variety of partners. This requires reliance on partnership funding and/or the delivery of integrated programmes and is an approach which is integral to the Council's efficiency programme. However, a significant number of the Council's partners are public sector organisations which are also facing significant budget pressures and changing roles. This places increasing risk on the Council both directly, in respect of possible withdrawal of partnership funding, and indirectly, with the Council potentially facing additional burdens resulting from budget cuts in other organisations. This is especially true in respect of the most vulnerable in society which could therefore have a direct impact on troubled families initiatives, homelessness and those with specialist housing need.
- 2.4.7 Although there remains some risk arising from these assumptions, it is not considered necessary to increase minimum balances above the 7.5% of total projected net expenditure as the Council is responding to the challenges through efficiency measures and service reductions. It is considered that the annual and medium term budgets are robust, but given the above risk assessment the achievement of the estimated MTFP will not be easy to deliver.
- 2.4.8 Given the Council's excellent track record for budget management, careful budget monitoring and financial planning, which will continue, the structural deficit that remains in the Medium Term Financial Plan is considered to still be at a manageable level, although it should be expected that there may need to be some contraction of service delivery/performance if existing efficiency plans do not proceed in line with expectations, or there are further funding reductions following the implementation of the Fair Funding Review.

2.5 **Council Tax 2019/20**

2.5.1 Tax Base

The Council's overall tax-base was determined by the Portfolio-holder for Resources and Reputation on 31 January 2019 as 37,007.37. The tax-base for each parish is given below at paragraph 2.5.8.

2.5.2 Local Government Finance Settlement

Final Settlement Funding Assessment (SFA) figures are summarised below. This level of support is not dependent on a particular level of expenditure.

Funding Stream:	£
Revenue Support Grant	0
Business Rates - Baseline Funding Level	3,027,100
Settlement Funding Assessment (SFA) excl NHB	3,027,100

2.5.3 The Collection Fund

The Collection Fund continues to operate for Council Tax requirements, and following the introduction of the Business Rates Retention regime on 1 April 2013, also for Non Domestic Rates (NDR).

The surplus/deficit for Council Tax was estimated on 15 January 2019 as Nil, therefore there will be no adjustment to be shared by the authorities precepting on the Council Tax Collection Fund in 2019/20.

An estimated NDR deficit of £716,677 was declared on 31 January 2019. This will be split as follows:

Proportionate Share - NDR:	£
Central Government 50%	358,338
Gedling Borough Council 40%	286,671
Nottinghamshire County Council 9%	64,501
Combined Fire Authority 1%	7,167
Total declared DEFICIT	716,677

The impact of these surpluses and deficits are included in the Medium Term Financial Plan.

2.5.4 Gedling Borough Council – Council Tax 2019/20

Cabinet have recommended a net budget of £11,676,000 and a Council Tax freeze for 2019/20. The summary of the proposed budget and the amount to be raised by Council Tax of £6,034,700 is detailed in the table below, together with the estimated position on the General Fund Balances:

Budget 2019/20:	£
Total Portfolio Budget:	11,676,000
Less:	
Settlement Funding Assessment (SFA)	(3,027,100)
New Homes Bonus	(482,000)
Council Tax (surplus)/deficit declared 15 Jan 2019	0
NDR growth, renewables, & NDR collection fund deficit	(906,800)
Contribution from balances in the year	(1,225,400)
COUNCIL TAX REQUIREMENT 2019/20	6,034,700
General Fund Balance:	
Estimated General Fund Balance at 1 April 2019	4,892,000
Transferred from balances during 2019/20 to support General Fund expenditure	(1,225,400)
ESTIMATED GENERAL FUND BALANCE AT 1 APRIL 2020	3,666,600
Minimum required General Fund balance at 1 April 2020	875,700

Gedling Borough Council's proposed Council Tax of £163.07 is calculated by dividing the amount to be raised through the Council Tax (£6,034,700) by the tax base (37,007.37). This produces an amount per Band D property.

2.5.5 Nottinghamshire Police and Crime Commissioner

Formal notification of precept has been received from the Nottinghamshire Police and Crime Commissioner, following the meeting of the Police and Crime Panel on 7 February 2019. The Council Tax will rise by 12.25%, which produces an amount per Band D property of £219.33.

2.5.6 Combined Fire Authority

Formal notification of precept has been received from the Combined Fire Authority following its meeting on Friday 15 February 2019. The Council Tax will rise by 2.95%, which produces an amount per Band D property of £79.80.

2.5.7 Nottinghamshire County Council

Nottinghamshire County Council will meet on Thursday 28 February 2019. Current indications are that its Council Tax will rise by 3.99%, including an additional 1% permitted for adult social care, and further information will be given to Council at the meeting.

2.5.8 Parish Precepts

Parish Councils are required to give formal notice of their precept requirements for 2019/20 by 1 March 2019. Those that have already been received at the time of writing are detailed in the table below, together with the provisional notifications received from the remainder. Anticipated parish precepts total £714,665, an increase of 6.26% on those declared for 2018/19.

As the result of a Community Governance review, Bestwood St Albans parish council was abolished on 31 March 2018 and replaced by two new ones, Bestwood Village Parish Council and St Albans Parish Council. First year precepts for these were set by Gedling Borough Council in 2018/19 as part of the Order establishing the parish councils; however for 2019/20 they have been set by the parish councils themselves in the normal way.

Parish:	Tax Base 2019/20	Precept 2019/20	Band D 2019/20	Band D 2018/19	+/-	+/-
		£	£	£	£	%
Bestwood Village	616.42	25,000	40.56	29.98	+10.58	+35.29
Burton Joyce	1,466.86	160,353	109.32	101.27	+8.05	+7.95
Calverton	2,204.44	197,494	89.59	86.98	+2.61	+3.00
Colwick	843.87	39,200	46.45	34.92	+11.53	+33.02
Lambley	506.47	16,400	32.38	32.65	-0.27	-0.83
Linby	336.55	13,090	38.89	78.24	-39.35	-50.29
Newstead	368.31	16,030	43.52	41.85	+1.67	+3.99
Papplewick	275.66	12,087	43.85	42.85	+1.00	+2.33
Ravenshead	2,742.39	134,227	48.95	47.81	+1.14	+2.38
St Albans	923.53	27,462	29.74	29.00	+0.74	+2.55
Stoke Bardolph	52.09	790	15.17	21.92	-6.75	-30.79
Woodborough	923.04	72,532	78.58	75.75	+2.83	+3.74
Unparished	25,747.74					
Total Tax Base	37,007.37					

Percentage movements may on occasion appear excessive; however Members should note that where precepts are small, modest monetary increases can result in significant percentage changes. There is no referendum limit set for parish councils for 2019/20 by central government.

Alternative Options

Had Cabinet chosen not to recommend a budget to Council this would have been in contravention of the Council's constitution and would not be in compliance with the Local Government Finance Act 1992.

Recommending an alternative budget may alter the level of recommended Council Tax for 2019/20.

Financial Implications

All financial implications are discussed within the report.

Appendices

None

Background Papers

- MHCLG Settlement report - Local Government Finance in England 2019/20;
- Prudential Indicators and Treasury Management Strategy Statement (TMSS) 2019/20;
- Capital Programme and Capital Investment Strategy 2019/20 to 2023/24;
- Gedling Plan 2019/20 (including General Fund Revenue Budget);
- Precept notifications 2019/20.

Reasons for Recommendations

To set the Council Tax for 2019/20 and comply with the requirements of the Local Government Finance Act 1992.

For more information, please contact:

Alison Ball, Financial Services Manager, on 0115 901 3980.