

Report to Cabinet

Subject: General Fund Revenue Budget 2020/21
Date: 13 February 2020
Author: Senior Leadership Team on behalf of Leader of the Council

Wards Affected

Borough wide.

Purpose

This report sets out revenue budget which aligns to the Gedling Plan priorities, objectives and top actions for the Council for the forthcoming year.

Key Decision

This is a Key Decision.

Recommendation(s)

Cabinet is asked to approve:

- i. a 3% discretionary income inflation increase for the individual portfolios as shown in the table at paragraph 2.5.6.

Cabinet is asked to recommend to Council on 5 March 2020:

- ii. that the financial threshold above which decisions will be regarded as Key Decisions be set at £0.5m for 2020/21;
- iii. a Council Tax increase of 3.07% (£5.00) which balances the financing of a Net Council Tax Requirement of £6,283,600 in 2020/21;
- iv. that the detailed budget for 2020/21, as detailed in Appendix 2 be approved.

Background

- 1.1 The Constitution of the Council requires the Leader to present, before 21 February each financial year, a draft Budget and Performance Plan to the Cabinet for approval, highlighting budget priorities, growth items and proposed efficiencies.
- 1.2 The Executive is required to consider any comments made on the draft Budget and Performance Plan and to present the final drafts to Council for adoption in accordance with the statutory requirements. To fulfil these requirements the 2020/21 budget proposals together with the Gedling Plan will be presented to Budget Council on 5 March 2020. The Borough Council has a statutory responsibility to determine its Council Tax by 10 March.
- 1.3 This report ensures that these requirements will be met for the 2020/21 budget process.

Proposal

2. **Proposed General Fund Budget 2020/21**

- 2.1 The Council's proposed General Fund budget sets out the financial strategy and framework for overall financial control and administration for the Council. It also details how individual items such as Central Government Funding, Taxation levels, Resource Developments and Efficiency proposals impact on the annual budget and this has been taken into account in presenting this annual budget and Medium Term Financial Plan (MTFP) Summary.

2.2 **Principles Underpinning the Budget Strategy**

The Council has a number of agreed principles as a basis for financial management and budget planning as follows:

- Emerging pressures are managed within existing overall budgets;
- Spending is aligned to key priorities as set out in the Gedling Plan;
- Income is only included in the budget where supported by robust proposals and is deliverable;
- The Council will maximise its commercial income where possible to ensure that fee charging services break-even over time and are provided with a nil cost subsidy from the taxpayer where appropriate, or return a surplus where appropriate;
- Where possible, future liabilities are anticipated;
- Budgets are sustainable;
- Savings proposals are supported by project plans and the impact on service delivery is clear;
- Capital and revenue planning must be integrated to ensure that implications are fully anticipated;
- The Council's reserves and balances are not to be used as a primary method to balance the ongoing pressures in the budget. Earmarked reserves are

used for specific one-off purposes to support the delivery of corporate objectives and to mitigate risks.

In light of the anticipated medium term gap, the Council has developed a forward strategy to inform future financial planning, by providing a framework for reducing planned expenditure over the medium term to ensure that the Council is financially sustainable, while still delivering the Council's key priorities as set out in the Gedling Plan.

To meet the financial challenges of the next five years the proposed approach represents a continuing strategic shift in the focus of the organisation from a model based largely on cost reduction and service redesign, through to include a strengthened focus on a more commercial council approach with an income earning emphasis.

2.3 Central Government Spending Round 2019

On 4 September 2019 the Chancellor of the Exchequer set out the Government's spending plans for 2020/21. Due to the uncertainties around Brexit this is a one-year only Spending Round with a stated focus on funding people's priorities: high quality healthcare, education and reducing crime.

The 2019 Spending Round announced a 4.1% real terms (i.e. after accounting for inflation) increase in day-to-day departmental spending delivered within the current fiscal rules: keeping the structural deficit below 2% of gross domestic product (GDP) in 2020/21 and debt falling as a percentage of GDP. Since 2010 the amount the government borrows each year has reduced to 1.1% of GDP enabling a sustainable increase in spending. A 4.4% real terms increase (6.3% in cash terms) in Core Spending Power was reported for Local Government to help meet the rising demand in social care services. *However, as detailed at paragraph 2.4.5, according to the Government's published Core Spending Power figures for each authority, Gedling's increase in 2020/21 is just 2.3% in cash terms which is 4% below the average received by the sector as a whole.*

A full multi-year spending review will be conducted in 2020 for budgets beyond 2020/21 and will take into account the nature of Brexit and set out plans for long term reform.

2.4 Local Government Finance Settlement 2020/21

2.4.1 The local government finance settlement is the annual determination of funding for local government, distributing revenue raised from business rates and other funding streams through:

- Revenue Support Grant and Business Rates Retention known as the Settlement Funding Assessment;
- Other Key Grants – e.g. New Homes Bonus

The provisional settlement figures for 2020/21 were announced by the Secretary of State for Housing, Communities and Local Government (MHCLG) on 20 December 2019. The Government's assessment of the Core Spending Power of local authorities and its proposals for the referendum principles for

managing excessive council tax increases were also announced as part the Settlement proposals.

A full analysis of the provisional settlement was completed by the Local Government Association and is attached at Appendix 1 for information. At the time of publishing this report the final settlement for 2020/21 had not been announced. An update on the final settlement will be provided at the meeting.

2.4.2 Settlement Funding Assessment (SFA)

The 2020/21 Settlement determines how much Revenue Support Grant central government will give to each local authority in England in 2020/21 and sets the Baseline Funding Level for Business Rates (the actual amount of business rates funding will be determined by the actual amount of rates collected and movements in the business rates base in accordance with the business rates retention scheme).

As detailed in 2.3 the Government announced a one year only Spending Round for 2020/21 and consequently is 'rolling forward' core components of the 2019/20 local government finance settlement without change to offer a one year local government finance settlement for 2020/21. The one year settlement means that there is still no clarity over funding levels after March 2021. This hampers meaningful financial planning at a time when demand pressures are increasing. There is still no detail available regarding the planned Fair Funding Review and the next stage of business rates retention, consultation processes launched by the Communities Secretary are ongoing.

As the 2020/21 figures represent a simple roll forward of the previous multi-year settlement period 2016/17 to 2019/20, they are presented with the previous period for comparative purposes in the table below:

Year	Revenue Support Grant £	Business Rates £	Total SFA £	Cash (Reduction) /Increase £	Movement from Prev. Year
2016/17	1,415,700	2,815,500	4,231,200	(707,200)	-14.3%
2017/18	780,500	2,873,000	3,653,500	(577,700)	-13.7%
2018/19	384,900	2,959,300	3,344,200	(309,300)	-8.5%
2019/20	0	3,027,100	3,027,100	(317,100)	-9.5%
2020/21	0	3,076,400	3,076,400	49,300	+1.6%

The total cumulative settlement reductions equate to 38% or £1.86m in cash terms over the spending review periods 2016/17-2020/21 compared to the base position of 2015/16. Total settlement reductions compared to the amount received in 2010/11 are £5.8m or 65% by 2020/21. This is marginally reduced from last year due to the inflationary increase added to business rates in 2020/21.

SFA has now reduced to 27% of Gedling's net budget for 2020/21, compared to 60% in 2010/11.

2.4.3 Business Rates Retention – Current 50% Retention Scheme

Business Rates growth compared to baseline funding levels of £3,076,400 for 2020/21 is estimated at £704,000 giving total income from business rates of £3,780,400, including S31 grants to compensate for new reliefs and indexation introduced by the government since the scheme's introduction (Note: S31 Grants are used by central government to reimburse a local authority for additional activities which are not covered by existing funding methods). Growth amounts for the medium term are currently forecast at a prudent level of £700,000 due to the uncertainties that remain in the estimation process i.e.:

- the business rates retention scheme has shown volatility in respect of the appeals process, the prediction of future growth, and the potential for significant local impact where a large business relocates/closes; and
- the impact of changes arising from the planned move to 75% business rates retention in 2021/22 remain largely unknown (see paragraph 2.4.7 below).

2.4.4 New Homes Bonus

During 2011/12 Central Government introduced the New Homes Bonus (NHB) which is funded from the centrally retained share of Business Rates income and paid as a separate non-ringfenced grant in addition to the Settlement Funding Assessment.

The principles of the grant are to reward local authorities for each new property completed within their boundary plus an additional reward for returning empty properties back into use. The value of the reward is linked to the national average council tax band D property for a number of specified years, initially set at six years.

When the NHB was introduced, the Department for Communities and Local Government stated in its final scheme design that it was intended to be a predictable, permanent and enduring feature of local government funding. However, since its introduction a number of changes have been made as summarised in the table below:

Scheme Period	Growth Level Awarded	Number of Years of Award
2011/12 – 2016/17	All	6
2017/18 – 2019/20	Above 0.4% Threshold	4
2020/21	Above 0.4% Threshold	1

During 2016/17 the Government made changes to the NHB with the intention of delivering savings to fund pressures in social care. The main changes to the scheme included:

- Reducing the length of time bonus is paid from six years to four years;
- Introduction of a 0.4% growth threshold, recognising that some housing would be built regardless of the NHB, to remove what Government terms as 'deadweight' from the payment. Local authorities need to achieve growth of greater than 0.4% in each year before they receive any NHB funding. For Gedling, this equates to 180 Band D properties before any payment is made. It was considered that the baseline could remove any incentive to grow in relatively low growth areas and penalise areas with limited opportunity to grow.

For 2020/21 the Government have confirmed that there will be no change to the way the NHB is calculated but the award will be for one year only. The Secretary of State for MHCLG stated that it is not clear that the NHB in its current form is focussed on incentivising homes where they are needed most and has announced that the government will consult on the future of the housing incentive in the spring.

For the period measured for the 2020/21 New Homes Bonus i.e. October 2018 to October 2019, growth in Gedling was 359 band D equivalent houses, equivalent to 0.8% growth. This is above the national baseline of 0.4% and NHB has been confirmed at **£269,400** for 2020/21 which will be paid for one year.

The impact of the scheme changes has been a significantly reduced award as demonstrated in the table below:

New Homes Bonus Projections Compared to 2016/17

Payment Relating to	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000	£000	£000
2011/12	339						
2012/13	410						
2013/14	366	366					
2014/15	448	448					
2015/16	468	468	468				
2016/17	369	369	369	369			
2017/18		9	9	9	9		
2018/19			11	11	11	11	
2019/20				93	93	93	93
2020/21					270	0	0
Total MTFP	2,400	1,660	857	482	383	104	93
Reduction from 2016/17		(740)	(1,543)	(1,918)	(2,017)	(2,296)	(2,307)

There remains considerable uncertainty surrounding the future of the NHB scheme. Following the consultation process announced by the Secretary of

State it is likely that NHB will be considered in the context of the Fair Funding review and may even be removed as part of the Comprehensive Spending Review 2021. It is considered prudent for medium term financial planning purposes to assume that zero NHB awards will be available to support revenue financing going forward. Any future awards will be available to support one off projects or an increase in balances to support future budgets.

2.4.5 Core Spending Power 2020/21 Compared to 2015/16

As part of the Settlement announcements the Government includes its projection and comparison of Core Spending Power for each authority. This demonstrate the movements in spending power for the four year spending review period 2016/17 - 2019/20 together with the 2020/21 spending round.

For Gedling the components of Core Spending Power include the Settlement Funding Assessment (revenue support grant and business rates), the Government's estimate of Council Tax Receipts, the New Homes Bonus and S31 grants and these are summarised in the table below:

Core Spending Power 2016/17 to 2020/21

Year	SFA and S31 Grant £m	Assumed Council Tax £m	New Homes Bonus £m	Total £m	Movement from Prior Year	Movement from 2015/16
2015/16	5.0	5.5	2.0	12.5		-
2016/17	4.2	5.5	2.4	12.2	-2.6%	-2.6%
2017/18	3.7	5.7	1.7	11.1	-9.0%	-11.2%
2018/19	3.3	6.0	0.9	10.2	-7.7%	-18.4%
2019/20	3.1	6.0	0.5	9.6	-5.9%	-21.5%
2020/21	3.2	6.3	0.4	9.9	+2.3%	-21.3%

As detailed in paragraph 2.3 the 2019 Spending Round reported a 6.3% cash terms increase in Core Spending Power for Local Government as a whole in 2020/21. The table shows a cash terms increase of 2.3% for Gedling in 2020/21 which is 4% below the average received by the sector as a whole.

The Government's estimate of council tax receipts assumes that District Councils will increase Council Tax by the maximum possible. However, actual council tax receipts will be determined by local decisions for council tax increases and actual tax base growth. The Government forecast presents a total cumulative reduction in core spending power by 2020/21 of 21.3% when compared to 2015/16, **making Gedling the worst affected Council in England.**

2.4.6 Council Tax Increase Referendum Trigger

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 a council tax increase above the government set limit this will trigger a referendum so that local voters can either support or reject the proposed rise.

In the Provisional Settlement the Government announced the referendum limit for 2020/21 for Shire Districts at 2% (set at 3% in 2019/20) or £5 whichever is higher. For Gedling the £5 cash limit equates to 3.07% in 2020/21. Any Council which sets an increase greater than the referendum limit and does not get support from the electorate via a referendum will have to revert to a council tax level that is compliant, and bear the costs of re-billing its residents.

2.4.7 **Local Government Financing from 2021/22**

Fair Funding Review

Alongside the local government finance settlement in 2018/19, the Government announced its intention to implement the Fair Funding Review in April 2020 but they have now confirmed that this will be delayed until April 2021. The review and consultation process is ongoing with the objective of delivering a sustainable funding allocation formula for local government.

Funding baselines for local authorities, as determined by the local government finance settlement, are based on an assessment of local authorities' relative needs and resources. The methodology behind this assessment was introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013/14.

Since that time, demographic pressures have affected local areas in different ways, as has the cost of providing particular services. In recognition of these pressures, the Fair Funding Review will address concerns about the fairness of current funding distributions. The outcome of this review will enable the Government to reconsider how the relative needs and resources of local authorities should be assessed in a world in which they will continue to have greater control over the money that they raise.

The consultation is seeking views on the approach to measuring the relative needs and resources of local authorities, which will determine new baseline funding allocations for local authorities in England in 2021/22. It:

- proposes to simplify the assessment of local authorities' relative needs;
- considers the type of adjustment that will be made to an authority's relative needs assessment to take account of the relative resources available to them to fund local services;
- proposes a set of principles that will be used to design potential transitional arrangements and examines how the baseline for the purposes of transition should be established.

Transitioning to the new funding distribution. The Government recognises that introducing a new needs and resources formula could result in significant changes to the funding baselines of some local authorities. It is therefore intended to introduce transitional arrangements that are fair, transparent and easily understood so that budgetary impacts can be accommodated. The consultation proposes that the starting baseline for the purposes of transition will be a measure of the current funding available to each local authority. This should mean that no authority will see its funding reduce as a result of the new system in the first instance. However, it is proposed that

transition is time-limited, establishing a fixed period of time to enable target allocations to be reached as soon as practicable.

Future Business Rates Retention

❖ 75% Business Rates Retention

The Government continues to consult on its proposals to further extend the business rates retention programme and its intention to implement a new phase alongside the implementation of the wider changes to the local government finance system i.e. the Fair Funding Review which has now been deferred to 2021. By 2021/22 the stated aim is for local authorities to retain 75% of business rates. The initial baseline funding levels for individual authorities will be determined by the needs assessment as concluded in the Fair Funding Review.

Alongside the local government finance settlement 2019/20, the Government published a technical consultation: *Business Rates Retention Reform*. The consultation process commenced seeking views on proposals for sharing risk and reward, managing volatility in income and setting up the reformed business rates retention system. The consultation covers two broad areas:

- ◆ The right balance of risk and reward in the system. Local authorities should continue to receive benefit from the growth they achieve in their local areas. This includes a review of the tier splits for sharing growth between districts and counties;
- ◆ Summarises the work undertaken to mitigate volatility in income and address the impact of appeal losses and valuation change on local authorities.

There will be a full re-set of the business rates system in 2021/22 to allow full implementation of both business rates reforms and the Fair Funding Review. The re-set will impact on the funding baseline, potentially removing or reducing the current level of growth that has been achieved in the system to date and reducing current income levels. The consultation seeks views on two types of reset, phased or partial and on the length of the reset period – with the objective of ensuring a strong growth incentive whilst also recognising redistribution need.

❖ 100% Business Rates Retention

The Government continues to pilot the 100% business rates retention scheme but it is not yet clear when this might be introduced nationally. It was initially intended to introduce a Bill into Parliament early in 2017 but this was delayed.

It is intended that Local Government will retain 100% of business rates revenues to fund local services and the current system of top-ups and tariffs will be retained to ensure appropriate distribution of resources. The Government's intention is for this change to be fiscally neutral at a national level. As part of these reforms, the revenue support grant will be phased out, as demonstrated in the table at paragraph 2.4.2, and additional responsibilities devolved to local authorities (these are unknown at this

stage), empowering them to drive local economic growth and support their local community. It is intended that the Uniform Business Rate will be abolished and any local area will be able to cut business rates (but not increase business rates), to win new jobs and generate wealth. Powers to increase business rates are only currently proposed for city-wide metro mayors for local infrastructure projects, with the support of local business.

Business Improvement Districts (BIDs)

BIDs are partnerships between a local authority and local businesses to develop projects and services that benefit the local trading environment and are funded by imposing a business rates levy within the development area. This scheme is proposed to continue alongside the 100% business rates retention scheme.

2.5 General Fund Budget 2020/21 Summary

2.5.1 The following table summarises the proposed General Fund Budget for 2020/21. The detailed budgets are presented at Appendix 2 together with an explanation of major variances between the original estimate for 2019/20 and the estimate for 2020/21. In developing a budget proposal, assumptions on the core budget have to be made and the various assumptions in respect of inflation are shown at Appendix 3. These have been included in both the annual base budget and MTFP calculations.

General Fund Budget Summary 2020/21

Portfolio	Original Budget 2019/20 £	Base Budget 2020/21 £	Variance £
Community Development	1,521,400	1,526,200	4,800
Housing, Health and Wellbeing	2,418,800	2,347,500	(71,300)
Public Protection	1,485,200	1,609,400	124,200
Environment	4,529,500	4,844,500	315,000
Growth and Regeneration	1,264,300	853,200	(411,100)
Resources and Reputation	1,222,000	2,174,100	952,100
Net Portfolio Budget	12,441,200	13,354,900	913,700
Transfer to/(from) Earmarked Reserves	(765,200)	(1,752,200)	(987,000)
Net Council Budget	11,676,000	11,602,700	(73,300)

2.5.2. Major Budget Pressures

The base budget includes the following major budget increases **greater than £50,000**, which are broadly in line with previous medium term financial plan expectations:

- Employee pay award (average 2%) - implementation of a local pay award - £276,200;
- Increase in the rates of Superannuation from 15% to 18.2% - £175,300;
- Inflation increases on utilities, NNDR & other contracts - £103,400;
- Interest on additional borrowing required to finance the capital programme and a reduction in the interest receivable from investments - £99,000.

2.5.3 Major Budget Reductions – Efficiency Programme

In response to the budget pressures arising from the downturn in the economy and consequent reductions in central government grant funding, the Council has approved a number of efficiency/budget reductions programmes to ensure delivery of a sustainable Medium Term Financial Plan (MTFP).

The Council's efficiency programme has been developed in accordance with the themes contained in the approved Efficiency Strategy i.e.:

- **Efficiency & Effectiveness** – including: service efficiencies delivering the same level of service with a reduced level of resource; effective asset management; new ways of working including service re-engineering and new delivery methods; demand management; and service reductions or cessation;
- **Contract Management** – improved value for money in procurement;
- **Income Generation** – to maximise all income and reduce the level of subsidy provided in our discretionary service areas moving towards full cost recovery where appropriate; innovation/new ideas for new income streams.

Efficiency Programmes – Progress Update

Since 2014/15 Council have approved four separate efficiency programmes totalling £6.5m net of risk provision. Progress has been positive with delivery of £3.9m being delivered in line with the estimate up to 2018/19.

Progress with the delivery of the remaining 2019/20 to 2022/23 programme of £2.582m (net of risk provision) has been fully reviewed as part of 2019/20 quarterly budget monitoring and the 2020/21 budget process. Total delivery is expected to be broadly in line with the estimate at £2.536m with a minor shortfall of £46k that could not be contained within the approved risk provision of £125k (which has now been fully allocated) and this has been fully reflected in the MTFP.

Of the remaining programme £1.874m is now due to be delivered over the period 2020/21 to 2022/23. It is recognised that there are still risks in delivering the full amounts of savings in the remaining projects, some of which contain additional uncertainties inherent in more innovative commercial approaches.

Therefore, it is recommended that a further budget reduction risk provision of £200k be recognised over the course of the programme, equating to approximately 10% of the planned efficiencies. Total ongoing savings now included in the MTFP for the current programme are £1.674m net of risk provision.

It is also recognised that as we continue to implement these proposals further resources will be required to manage the change effectively and it is proposed that further one-off Transformation Fund resources of £250,000 be established in 2020/21. This will cover change management costs, including costs of potential redundancy/retirement.

Efficiency Proposals – Additional Target 2021/22 to 2022/23

Due to the reduced delivery of the existing efficiency programme (above) and new budget pressures arising e.g. additional pension contributions, a new cumulative efficiency target of £250,000 is included in the MTFP, made up of the following annual ongoing targets: **2021/22 £100,000; 2022/23 £150,000.** The inclusion of this target ensures that the Council's balances do not drop below the minimum required for the period of the MTFP and is included in the summary table in paragraph 3.2. Whilst the proposed targets are not yet supported by outline business plans, meaning this aspect of the financial plan is less robust, the first savings are not proposed for delivery until year 2 of the MTFP giving the Council a good lead in time for developing detailed plans.

2.5.4 Implementation of Manifesto Pledges

Delivery of the 2019 manifesto pledges has been reflected in the Gedling Plan actions over the 3 year period (an item elsewhere on this agenda). The revenue implications of the pledges developed to date include:

- *Offer every household one free bulky waste collection every year* – improvements to the existing scheme are being considered, with an estimated reduction in income of £37,500 per annum;
- *Invest in new and existing CCTV in priority hot spots* – schemes identified will be funded from the CCTV earmarked reserve established for this purpose;
- *Promote and support community based 'clean up' initiatives including seasonal big clean events* – additional budget of £2,000 per annum for expenses and equipment;
- *Deliver town centre events and festivals* – to be delivered from established projects budgets in economic regeneration and earmarked reserves. These events will complement the capital investment planned for the delivery of the manifesto pledge to *regenerate town centres* including Arnold and Carlton Square developments (see capital programme report – an item elsewhere on the agenda);
- *Provide targeted business support to small and medium businesses across the borough* – new budget provision of £10,000 per annum;
- *Plant 500 native trees annually across the borough* – additional budget of £4,000 per annum;
- *Maintain Council's commitment as a Plastic Clever Council* - projects continuing from 2019/20 via use of earmarked reserves. These projects

complement the proposed capital investment in Carbon Reduction Initiatives (see capital programme report – an item elsewhere on the agenda);

- *Deliver management savings to ensure continuing investment in front line services* - provision included as part of the efficiency programme detailed at paragraph 2.5.3 above.

2.5.5. **Proposed Revenue Resource Developments 2020/21**

Following discussions with the Leader, the Revenue Resource Developments detailed in the tables below are recommended to Cabinet for approval.

The table below show schemes scoring 15 points and above using the Council's approved methodology which assesses schemes in accordance with the level of contribution made towards the achievement of the Council's Priorities and Improvement Plans.

(a) Revenue Resource Developments 2020/21

Scheme	Revenue Bid 2020/21	Ongoing
	£	£
Selective Licencing Phase 2 <i>(to improve property management and housing conditions in the private rented sector)</i> Total project cost £320,000 over 5 years fully funded by licence fee income.	0	0
Holiday Activity Programme 16s and Under <i>(to deliver a range of diversionary activities to improve health and wellbeing, addressing issues of youth disaffection, loneliness, isolation and mental health)</i>	10,000	10,000
IT Technical Officer <i>(to support the delivery of digital projects, maintain cyber security and secure planned efficiencies across council services)</i>	31,500	31,500
Engagement and Consultation with Young People <i>(to address gap in consultation in Gedling Plan development)</i>	5,000	0
Total Revenue Bids	46,500	41,500

(b) One Off Resource Development Bids funded by Earmarked Reserve

Scheme	Revenue Bid 2020/21
	£
Health and Housing Co-ordinator <i>(supporting vulnerable people affected by inappropriate housing to enable their return home from healthcare).</i>	30,000
VE and VJ Day Commemoration Fund <i>(to support the community in delivering local events which bring people together in remembrance and understanding)</i>	20,000
Total One Off Revenue Bids	50,000

In addition to the revenue resource development proposals a number of capital resource developments (see capital programme report an item elsewhere on this agenda) have ongoing revenue implications which have been included in the revenue budget and MTFP, as detailed in the table below:

(c) General Fund Ongoing Revenue Implications of the Proposed Capital Development Proposals (excluding borrowing costs)

Description	Capital Budget – For Information	Revenue Costs 2020/21	Ongoing Full Year Effect
	£	£	£
Hazelford Way Small Business Unit Extension (business case)	350,000	(4,400)	(17,500)
Carbon Reduction Initiatives	200,000	0	(10,000)
Total Ongoing Revenue Costs/(Saving)		(4,400)	(27,500)

2.5.6 Discretionary Income Inflation

The Medium Term Financial Plan includes income inflation at 3% on discretionary income, (excluding leisure DNA memberships, Trade Waste, Building Control, town centre car parking), which equates to £99,500, and the increase per Portfolio is shown in the table below. Each additional 1% increase will raise a further £33,100.

It is suggested that the Portfolio Holder agrees individual charges with the relevant Corporate Director, with discretion to vary the percentage increase, as long as the overall cash amount for that Portfolio is raised or exceeded.

Portfolio	Discretionary Income £	1% increase £	3% increase £
Community Development	(79,200)	(800)	(2,400)
Housing, Health & Wellbeing	(1,817,700)	(18,200)	(54,500)
Public Protection	(574,800)	(5,700)	(17,300)
Environment	(805,500)	(8,100)	(24,200)
Growth & Regeneration	(2,100)	0	(100)
Resources & Reputation	(32,300)	(300)	(1,000)
Total	(3,311,600)	(33,100)	(99,500)

Some of the services operated by the Council are not included in the general fee inflation increase due either to: the sensitivity of demand to price changes e.g. Leisure DNA memberships, Garden Waste or; being operated on a commercial basis and therefore required to breakeven e.g. Trade Waste Services and Building Control. The levels of fees which are set in these areas are considered separately and the base budget amended to ensure appropriate fees are set.

Some fees for statutory services e.g. development control, are determined by Central Government and any changes are reflected in the base budget.

2.5.7 **Summary of Significant Budget Changes 2020/21**

In summary, the table below highlights the areas of significant variance in expenditure/income which have been reflected in the base budget 2020/21.

Significant Budget Changes 2020/21

	Budget Impact 2020/21	
	£	£
Original Net Council Budget 2019/20		11,676,000
<u>Revenue Budget Pressures</u>		
Pay Award 2%	276,200	
Increase in Superannuation from 15% to 18.2%	175,300	
Utility, NNDR & Contract Inflation	103,400	
Adjustment Borrowing Interest and Reduction in Investment Interest	99,000	
Reduction in Housing Benefit Administration Grants	27,900	
Other minor variances (net)	(10,800)	
Total Pressures		671,000
<u>Revenue Budget Growth</u>		
Manifesto Pledges	53,500	
Revenue development bids 2020/21 (see table above)	46,500	
Total Growth		100,000
<u>Efficiency/Budget Reduction Programmes</u>		
Previous Approved Programmes – additional efficiencies for delivery in 2020/21	(519,000)	
Total Efficiency Programme 2020/21 (net impact)		(519,000)
Provisions		
Adjustment to the Transformation Reserve	(150,000)	
Addition of an Asset Management Provision	100,000	
Adjustment to Budget Reduction Risk Reserve	75,000	
Total Provision		25,000
<u>Other Base Budget Reductions</u>		
Rent Allowances	(120,800)	
Removal of Local Election Budget	(130,000)	
Fees and Charges Income Inflation (see para 3.6.5)	(99,500)	
Total Other Budget Reductions		(350,300)
Net Decrease in Budget 2020/21		(73,300)
Proposed 2020/21 Net Council Budget		11,602,700

Note: In addition to the above 2020/21 budget changes and future inflationary increases the MTFP includes the following:

- Elections costs in 2023/24 £133,500;
- Assumptions about the transfer of Housing Benefit administration to the Department of Works and Pensions following the introduction of Universal Credit have been made including the deferral of the roll-out announced by the Government. The net cost to the authority is now expected to be £30,000 in 2021/22 rising to £120,000 by 2024/25;
- Expected demand pressure arising from growth in the number of households £100,000 from 2024/25.

2.5.8 **Review of Balance Sheet Reserves**

The Local Government Act 2003 requires authorities to consider the level of reserves when calculating their budget requirements. Professional guidance is set out to assist in this deliberation.

The Council's minimum General Fund Balance requirement is set at 7.5% of the Net Council Budget which is £0.870m for 2020/21. The General Fund balance is currently projected to be in excess of the minimum by £1.95m at 31 March 2021. The medium term projection on the General Fund Balance is detailed in the Medium Term Financial Plan summary at paragraph 3 below.

Earmarked Reserves on the balance sheet have been reviewed to ensure appropriate levels of funds are retained for specific future purposes and risks. The estimated movement on reserves for 2019/20 and 2020/21 are detailed at Appendix 4 and show expected balances of £3.73m at 31 March 2021.

2.5.9 **Financing of the Capital Programme**

As detailed in the Capital Programme report earlier on this agenda it is currently forecast that borrowing will be required to finance part of the capital programme in 2020/21 to 2024/25. Borrowing has an impact on the revenue budget in terms of interest costs and principal repayment. This is reflected in the Medium Term Financial Plan.

2.5.10 **Collection Fund**

Council Tax

The Council is statutorily obliged on 15 January each year to prepare an estimate of its Collection Fund transactions for Council Tax. This estimate enables Gedling and the three major precepting authorities to take account of any surpluses or deficits on the Fund when they set their own authority budgets.

As detailed in Appendix 5 the declared surplus and deficit calculation at 31 March 2020 estimates that a fully balanced Collection Fund will be achieved i.e. a surplus/deficit of zero, which means there will be no charges or credits to the General Fund during 2020/21.

Business Rates

The Business Rates Collection Fund balance at 31 March 2019 was slightly better than forecast and resulted in a deficit of only £0.566m being carried forward, compared to the estimated deficit of £0.717m declared in January 2019 for collection in 2019/20 - a decrease of £0.151m. An estimated deficit of £0.789m at 31 March 2020 has been declared in January 2020, and this will be split between the major preceptors in line with their share of business rates income – for Gedling, the 40% share of the declared deficit is £0.316m. The primary reason for the deficit on the Business Rates Collection Fund is an increase in the appeals provision.

2.5.11 **Business Ratepayers Consultation**

There is a statutory requirement to consult with business ratepayers on the budget proposal. The consultation has commenced and any responses will be reported at the meeting.

3. **MEDIUM TERM FINANCIAL PLAN**

- 3.1 The implementation of the Local Government Act 2003, which introduced a requirement for the Council's Chief Financial Officer to comment on the robustness of the Council's estimates, and the need to look at the medium term (3 years) in order to produce the required indicators as detailed in the Prudential Code, means greater emphasis needs to be placed on the Council's medium term financial planning. Although an absolute requirement to look over three years is required, it is considered good practice to look over as long a period as is reasonable. This Council has a history of producing a Medium Term Financial Plan over a 5 year horizon and this is still considered the appropriate period for this authority.
- 3.2 The following table identifies the impact of all the options that are proposed in this report:
- The incremental increase in base revenue expenditure from 2019/20, manifesto pledges (paragraph 2.5.4) and budget growth items (paragraph 2.5.5);
 - Fees and charges to be increased by an average 3% (paragraph 2.5.6);
 - Planned budget reductions and efficiency savings, including proposed new efficiency target, 2020-2023 (paragraph 2.5.3);
 - Anticipated cost of borrowing to finance the capital programme for 2020/2025;
 - A £5 Band D Council Tax increase has been assumed for 2020/21. Beyond that a £5 or 2% Council Tax increase, whichever greater, has been assumed for each year of the MTFP in line with the maximum possible without triggering a referendum. However, future council tax increases will be dependent upon future spending decisions, total local government funding and the achievement of efficiency savings.

The table below demonstrates a balanced medium term plan with a projected surplus on balances at the end of year 5 (2024/25). Whilst the budget still requires a contribution from balances in year 5, the inclusion of a higher efficiency target to

that included in paragraph 2.5.3 is not recommended due to the uncertainties surrounding the future of local government funding. Given the projected surplus on balances and the many variables in the medium term plan there will be sufficient time to address any future imbalance that may arise.

MEDIUM TERM FINANCIAL PLAN 2020/21 TO 2024/25 - HIGH LEVEL SUMMARY

	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Net Council Budget	11,602,700	11,229,000	10,990,200	11,387,900	11,703,100
Financed by:					
Less: SFA Business Rates Baseline	(3,076,400)	(3,138,000)	(3,200,700)	(3,264,700)	(3,330,000)
SFA – Revenue Support Grant	0	0	0	0	0
NNDR Growth/ Collection Fund (Surplus)/Deficit /S31 Grant	(704,000)	(700,000)	(700,000)	(700,000)	(700,000)
New Home Bonus - Current	(269,400)	0	0	0	0
New Homes Bonus - Legacy	(113,300)	(104,300)	(93,100)	0	0
Less: Amount (from)/to Balances	(1,156,000)	(751,200)	(205,300)	(372,800)	(359,600)
Council Tax Requirement	6,283,600	6,535,500	6,791,100	7,050,400	7,313,500
Council Tax increase	£5 (3.07%)	£5 (2.97%)	£5 (2.89%)	£5 (2.81%)	£5 (2.73%)
Tax Base	37,387	37,762	38,137	38,512	38,887

The MTFP above assumes that a £5 increase will be applied between 2021/22 and 2024/25 but the actual increase will be determined on an annual basis by Council.

Expected balances at year end	2,824,000	2,072,800	1,867,500	1,494,800	1,135,200
Required balance (7.5% projected exp)	870,200	842,200	824,300	854,100	877,700
(Surplus)/Deficit on required balances	(1,953,800)	(1,230,600)	(1,043,200)	(640,700)	(257,500)

Note: Actual General Fund Balance at 1 April 2019 was £5,160,900.

4. **COUNCIL TAX**

4.1 The Council Taxpayer has to meet the difference between the planned expenditure and the Government grant receivable after the use of any balances

are taken into account. It is this difference that is used to calculate individual Council Tax bills for 2020/21.

- 4.2 Gedling's share of the council tax for a band D property for 2019/20 is £163.07. The level of council tax for 2020/21 depends on the extent of service reductions/developments and financial risk issues (see paragraph 5 below) that the Council decides to provide for in the budget for next year. For illustration, an increase in council tax by 1% provides additional funding of £60,900. In the above MTFP a £5 (equivalent to 3.07%) increase has been assumed for 2020/21. **The MTFP at paragraph 3.2 assumes that a £5 increase will be applied for the whole period of the plan but the actual increase will be determined on an annual basis by Council.** The maximum council tax increase that a shire district can apply without triggering a referendum is £5 or 2%, whichever is greater. To illustrate the impact of the £5 increase, the overall position on each banding is as follows:

Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
£3.33	£3.89	£4.44	£5.00	£6.11	£7.22	£8.33	£10.00

5. **ROBUSTNESS OF ESTIMATES**

- 5.1 Sections 25 and 26 of the Local Government Act 2003 place a personal duty on the Chief Finance 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 2020/21 revenue budget proposals and Capital Programme in the context of the Medium Term Financial Plan are detailed in paragraphs 5.2 to 5.8 below.

5.2 **Financial Settlement/Funding Streams**

A number of significant changes have been made to the local government financial settlements and grant funding over the period of the last Comprehensive Spending Review and proposals have been announced for future changes. Whilst the Spending Review 2019 announced a 4.4% real terms increase in Core Spending Power for the local government sector in 2020/21, this has not applied to Gedling which only received a 0.4% real terms increase. 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/Fair Funding Review**: The extension of the business rates retention scheme and implementation of the Fair Funding

Review was planned for 2020/21 but this has now been delayed for a year until 2021/22 to coincide with the next spending review period. The Government continues to pilot the 100% business rates retention scheme but it is not yet clear when this might be introduced. The 2020/21 settlement is for a one year period only and it is a concern that there is no clarity over funding levels after March 2021. 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 which 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/closes. These changes are likely to require local authorities to hold higher levels of reserves in the future.

- **New Homes Bonus**: the main body of the report at paragraph 2.4.4, identifies the significant impact that changes to this funding stream has for Gedling Borough Council due to the introduction of a 0.4% growth baseline resulting in a significantly reduced awards since 2016/17.

For 2020/21 the NHB award has been made for one year only as the government has stated that it is no longer clear that the NHB in its current form is focussed on incentivising homes where they are needed most and they plan to consult on the future of the housing incentive in the spring. Following the consultation process it is likely that the future of NHB will be considered in the context of the Fair Funding review and may even be removed as part of the Comprehensive Spending Review 2021.

Whilst there may still be an opportunity to receive NHB in the future it is considered that there is a significant downside risk to this arising and it is not prudent to rely on this funding stream to support the revenue budget. Therefore the MTFP assumes 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 2% 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 contained in this report assumes that a £5 increase will be applied between 2021/22 and 2024/25 but the actual increase will be determined on an annual basis by Council. Any increase below the £5 will require an increase in the efficiency targets to ensure that a balanced budget can be set.

- **Economic Growth/Inflation:** The Chancellor has announced a one year only spending review for 2019, basing spending decisions on estimates of future growth and assumptions on inflation. These figures are supported by the independent Office of Budget Responsibility but there is a degree of uncertainty in these figures, due to the ongoing uncertainties surrounding Brexit. Without a multi-year settlement or an understanding of what the Fair Funding Review or business rates retention will bring any future pressure arising from an economic downturn would need to be managed within local resources i.e. 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 as detailed in Appendix 3, including pay award. The Chancellor removed the 1% public sector pay cap in 2018/19 and this has also impacted on pay expectations in local government. In Gedling pay increases equated to an average 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 2024/25. It is considered that these are realistic assumptions but uncertainties in the economy present a risk that future awards could be higher.

- 5.3 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 2020/21 is £870,200.
- 5.4 The (surplus)/deficit on balances in the MTFP table in 3.2. shows amounts (above)/below the recommended minimum General Fund balance in any one year. Current spending plans show a surplus of £1,953,800 in 2020/21 declining to £257,500 by the end of 2024/25. 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, as detailed in paragraph 2.5.3. 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 to develop strategies to meet the set efficiency targets.

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

- Reduced maintenance budgets – 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. Increased public building maintenance budgets have been included in both the 2020/21 revenue and capital budget proposals to mitigate this risk;
- Earmarked reserves for specific purposes/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/transfer costs in respect of the move of rent allowance payments to the Universal Credit system which has again been delayed.

5.6 The Authority 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.

5.7 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 Medium Term Financial Plan will not be easy to deliver.

5.8 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.

6. **Risk Assessment**

Gedling needs to review its Financial Strategy and Medium Term Financial Plan annually to ensure its projected expenditure is balanced with the income it receives, and where it doesn't, or is projected not to, corrective action needs to be identified and put in hand.

Risk	Impact	Comments
Time	Medium	<p>Gedling has always aimed to be at least one year ahead of the budget reductions it needs to make, so that any changes required are as trouble free as possible.</p> <p>Efficiency plans to meet the approved targets will continue to be implemented over the next 3 years to balance the MTFP.</p>
Viability	Medium	<p>The reduction in New Homes Bonus coupled with increasing pay awards and the review of local government funding increases the risks to the finances of the Council; however, it has enough reserves to cushion the impact whilst delivering the approved efficiency programme.</p>
Finance	Medium	<p>With the continued removal of central government support, the Council will increasingly rely on income generated by local fees and charges, and council tax, and these will need to consistently increase year on year to offset the momentum of continual reductions in available budgets.</p>
Profile	Medium	<p>The achievement of a balanced and sustainable MTFP is reliant upon the effective delivery of the efficiency programme, with £1.674m planned for delivery 2020/21 to 2022/23 and a new proposed efficiency target of £0.250m over 2021/22 to 2022/23</p>

Adaptability	High	Working with partners will be essential to successfully respond to the challenges that face the Council. The joint work with the DWP has provided a positive model of partnership working and Gedling is working more closely with the Police and the local Clinical Commissioning Group to work laterally across the sector.
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7. **Equality Issues**

The Council has a duty under the Equality Act 2010 to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between protected groups (such as disabled people or ethnic minority groups) when considering proposed new or changing policies, services or functions, including decisions on funding for services.

Service Managers have been asked to assess the equalities impact of the proposals for service changes contained in this report. It is not anticipated that there will be any significant cumulative impact on any protected group arising from these budget proposals.

Where appropriate, individual Equality Impact Assessments will be carried out in relation to specific proposals identified in this report. Any equality issues arising will be brought to the attention of the decision maker when the decisions on those proposals are made.

8. **Key Decision Thresholds**

In accordance with the Council's Constitution, full Council will in each year determine the financial thresholds for each service or function above which expenditure or saving is regarded to be significant and should therefore be regarded as a Key Decision. Traditionally the threshold has operated at above £0.5m and it is proposed that this value be continued for 2020/21.

Alternative Options

Cabinet could consider recommending an alternative budget and service plan. Recommending an alternative budget may alter the level of recommended Council Tax for 2020/21. If Cabinet chose not to recommend a budget to Council this would be in contravention of the Council's Constitution and would not be in compliance with the Local Government Finance Act 1992.

Financial Implications

As detailed in the report.

Appendices

- Appendix 1 - Local Government Association Settlement Briefing
- Appendix 2 - Detailed Gedling Plan Portfolio Budgets 2020/21

Appendix 3 - Major Price Indices – Medium Term Financial Plan
Appendix 4 - Movement on Earmarked Reserves
Appendix 5 - Council Tax Collection Fund Estimate 2020/21

Background Papers

- Central Government Report – Local Government Finance Report 2019 to 2020
- Prudential and Treasury Indicators and Treasury Management Strategy Statement 2020/21
- Capital Programme and Capital Investment Strategy 2020/21 to 2024/25
- Gedling Plan 2020/21 to 2022/23

Reasons for Recommendations

To obtain approval of the General Fund Revenue Budget 2020/21 for referral to Council.