

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
11 February 2020

Subject: REVENUE BUDGET 2020/21

All Wards
Portfolio Holder for Finance and Economic Development: Councillor P R Wilkinson

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of the report is to present at a strategic level the revenue budget proposals for the next financial year 2020/21.
- 1.2 The summary estimates in this report are shown at Annex A and present the 2018/19 Actual; 2019/20 Original Budget; 2019/20 Latest Approved and 2020/21 Estimate Budget. Commentary on the budget proposal is also contained in Annex A. Theme budgets are shown at Annex B.

2.0 BUDGET 2020/21:

- 2.1 The original estimate for 2020/21 shows a net budget of £9,269,670. This is £183,800 higher than the budget set in 2019/20 which was £9,085,870.
- 2.2 The increase in the budget mainly relates to an increase in salaries across the organisation, where it is estimated that the 'national employer' offer across all local authorities will increase by 2.5% in 2020/21. Other increases to the 2020/21 expenditure budget have occurred in line with inflation and the overall net budget increase is estimated at 2%. These other increases are not apparent in the overall net budget rise from 2019/20 because these costs are negated by estimated increases in planning fees and income to be generated from projects as detailed in the Council Plan. The review of the plans to generate other sources of income, for the future sustainability of the financial strategy, is ongoing.
- 2.3 Considering the financial climate in which the Council is operating with continued cost pressures facing local government and the tight funding position, from an overall reduction of Government grants in the last five years, this budget position is affordable.
- 2.4 The increase in the overall net budget is necessary for the Council to continue to provide efficient and effective services for the community. Financial austerity claimed by the Government to be over in September 2019 in the Chancellors statement has seen the grant funding from the Government's Settlement Funding Assessment to Local Authorities (a combination of the level of revenue support grant and rural service delivery grant received along with the expected business rates to be achieved) increased overall by 1.6%. This is the first increase in the Settlement Funding Assessment in over a decade. Over the last five years however, since the start of the four year funding assessment in 2016/17, the cut in the Settlement Funding Assessment has been 30.1% in cash terms, with the increase in 2020/21 changing the direction of travel but not replacing the massive cuts that have occurred in local government funding.
- 2.5 Council has been able to maintain the budget around the same level for the last five years due to the income it has generated from the loan to the local housing association and the charging for green waste services. In addition, in 2020/21 the estimation of income to be generated from the development of the Treadmills site in Northallerton and the investment to be made in the Commercial Investment Portfolio allows the Council to sustain and improve the delivery of service.

3.0 **FINANCIAL STRATEGY:**

- 3.1 The revenue budget estimate for 2020/21 is within the financial constraints of the Financial Strategy included previously on this Cabinet agenda.
- 3.2 The ten year Financial Strategy makes a number of assumptions around the falling level of grant support to be received by the Council, the level of business rates to be achieved, the level of Council Tax to be collected and the amount of income that needs to be generated. These assumptions and the revenue budget result in a balanced position for 2020/21.

4.0 **RISK ASSESSMENT:**

- 4.1 The key financial risks and associated implications for the Revenue Budget 2020/21 are detailed below, a score of high, medium or low has been given to the likelihood of each risk occurring and the impact of risk on the Financial Strategy should it occur:-

Risk	Implication	Gross Prob	Gross Imp	Gross Total	Preventative action	Net Prob	Net Imp	Net Total
The funding settlement beyond 2020/21 is unknown due to clarity awaited from Government on the Business Rates Reform Scheme	Loss of funding	3	5	15	Continually search for other income generating options	3	5	15
Under the Business Rate Retention scheme failure to meet the target for business rate collection set by Government represents a cost to the Council. Also, under this scheme the Government has transferred the risk of business rate no payment to the Council	Loss of income	3	5	15	Monitor business growth and reduction through collection rates. Act as an enabler with partners on economic development initiatives	3	5	15
The continued forecast low Bank Base Rate of 0.75% for 2020/21 impacts on the Council's ability to generate investment income from balances	Loss of income	4	3	12	Look for other investment opportunities	4	3	12
The Council is unable to generate income on an ongoing basis	Loss of Income	3	5	15	The Council is proactive in looking at new alternative income streams	3	5	15

Risk	Implication	Gross Prob	Gross Imp	Gross Total	Preventative action	Net Prob	Net Imp	Net Total
Third Party Housing Association does not continue to require funding after current loan maturity dates reached	Loss of Income	4	3	12	Further discuss with the Housing Association in regards to their future funding requirement.	4	3	12

5.0 FINANCIAL IMPLICATIONS:

5.1 The financial implications are dealt with in the body of the report.

6.0 LEGAL IMPLICATIONS:

6.1 It is a legal requirement under the Local Government Finance Act 1992 to set a balanced budget and monitor the financial position throughout the year.

7.0 EQUALITY/DIVERSITY ISSUES:

7.1 There are no specific equality implications to this report.

8.0 RECOMMENDATIONS:

8.1 It is recommended that Cabinet approves and recommends to Council the revenue budget for 2020/21 at £9,269,670.

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Background papers: Budget Setting papers 2020/21
Financial Strategy 2020/21

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REVENUE BUDGET – ESTIMATES 2020/21**1.0 ESTIMATES 2020/21**

1.1 The table below details the revenue budget for 2020/21 at a strategic level.

	2018/19 Actual £	2019/20 Original £	2019/20 Latest £	2020/21 Estimate £
Economy & Planning	1,422,113	1,664,120	1,679,890	1,969,330
Environment	3,708,803	3,987,600	3,784,660	4,051,070
Finance & Commercial	(19,345)	91,260	260,780	23,330
Law & Governance	1,125,722	1,358,090	1,330,270	1,351,240
Leisure & Communities	1,502,685	1,856,880	1,895,170	1,726,100
Internal Drainage Boards	120,678	127,920	135,100	148,600
Net Budget	7,860,656	9,085,870	9,085,870	9,269,670

1.2 The budget has been prepared in accordance with the Council's priorities reflected in the Council Plan.

1.3 A detailed schedule of service's budgets that constitute the total budget in each Department is shown at Annex B.

2.0 FINANCIAL STRATEGY:

2.1 The Council's latest Financial Strategy has been included previously on this Cabinet agenda. The revenue budget for 2020/21 is within the financial constraints set by the Financial Strategy.

2.2 A number of assumptions which underpin the Financial Strategy have been applied in setting the 2020/21 revenue budget, these include:-

- All fees & Charges have been reviewed for 2020/21, with an overall increase of 5.91%. This takes into consideration the nature of the services, the impact on commercial viability and local economic circumstances;
- A provision of 2.5% has been included for the nationally pay award.
- Contracts and Service Level Agreements have been increased by the appropriate rate of Consumer Price Index where applicable. Energy and vehicle fuel prices continue to be volatile, although advantage has been taken of favourable rates in relation to gas and electric and contracts locked into. Prudent provision has been included for changes in vehicle fuel for 2020/21.
- The Business Rate Retention Scheme has been estimated at a decrease of 4.9% in 2020/21 compared to 2019/20 due to the change in the scheme from the 75% North and West Yorkshire business rates pilot to the 50% North and West Yorkshire Pool as set out by Government. Further information is available in the Financial Strategy 2020/21 to 2029/30 Report on this agenda. The scheme enables the Council to keep a proportion of the business rates collected locally which provides an incentive for all Councils to grow their local economy.

- A Council Tax increase of £5 on a Band D equivalent property has been determined; Council tax did not rise for five years up to 2016/17 as a result of Central Government offering a Council Tax Freeze Grant; however due to the estimated future reduction in local government funding and the uncertainty of the business rate retention reform this is no longer viable.
- The Income generating revenue funding stream introduced from 2020/21 where by the Council needs to look towards alternative revenue generating opportunities to be able to continue to deliver current services; this includes the development of the Treadmills site in Northallerton and the Commercial Property Investment portfolio.
- Government grants will reduce where by revenue support grant and rural services delivery grant will cease to exist after the end of 2020/21. It has been assumed that over the life of the 10 year strategy the new homes bonus grant will finish in 2023/24 in line with the comments in the Chancellor's Autumn statement in September 2019 that the scheme has not promoted growth in house building as it had hoped.
- The revenue budget assumes that the Bank of England base rate will remain low at 0.75% throughout 2020/21 with the possibility of rising in Q2 2021 to 1%. However, it is likely that the base rate will remain low for the foreseeable future as the Monetary Policy Committee is unlikely to dampen growth prospects, (i.e. by raising Bank Rate), during the negotiations with the EU around trade. This will impact on the ability of the Council to generate any significant investment income from balances.

2.3 Within the Financial Strategy it has been estimated that the Council loses 35.9% of its funding (revenue support grant, rural service delivery grant, new home bonus) from the Government's four year funding settlement since 2016/17. In 2020/21 there is a loss of 2.57%.

2.4 All these factors have been taken into account to balance the revenue budget and limit the Council's reliance on the use of reserves. The assumptions in the Financial Strategy on the level of income generated by all these streams are made on a prudent basis.

3.0 RESERVES AND BALANCES:

3.1 As the revenue budget has been set within the constraints of the Financial Strategy, the assumed level of revenue reserves and balances at 31 March 2020 remain consistent with the Financial Strategy.

3.2 A summary of anticipated revenue reserves and balances at 31 March 2021 is set out below:-

Reserves	Balance £
Council Tax-payers	6,789,266
Repairs and Renewals Fund	758,799
Computer Fund	794,900
Grants Fund	43,134
One Off Fund	1,388,953
Economic Development Fund	1,137,847
General Fund Working Balance	2,000,000
TOTAL	12,912,899

3.3 This reserve position is reliant on the income streams detailed in paragraph 2.3.

4.0 FINANCIAL OUTLOOK:

- 4.1 Although the revenue budget 2020/21 and Financial Strategy represent a robust position, the Council is not immune to the continued significant economic and financial challenges facing the whole of the public sector in the UK.
- 4.2 The Local Government Finance Settlement 2020/21 announced on 19 December 2019 was broadly in line with what was expected. Overall Core Spending Power nationally is expected to increase by 6.3% in 2020/21, the highest increase in over a decade. Core Spending Power nationally has been increasing in cash terms since 2017/18, reflecting the lower cuts in Settlement Funding Assessment and the increases in council tax (particularly adult social care precept). This is the first real-terms increase in Core Spending Power nationally since 2010.
- 4.3 The Core Spending Power is the overall impact on local authorities of changes in funding and locally-raised council tax. It reflects the impact of changes on local authority budgets. For this District Council the Core Spending Power includes:
- Settlement Funding Assessment – revenue support grant, rural services delivery grant and business rate;
 - New homes bonus;
 - Council Tax
- 4.4 The Core Spending Power for the Council in 2020/21 has increased by 0.71% from 2019/20 due to the increase in Council tax and the increase in the number of properties in the district. The settlement Funding Assessment (revenue support grant, rural services grant and business rates) along with new homes bonus grant from Government has decreased by 2.57%.
- 4.4 The announcement in December 2019 on rural services delivery grant and new homes bonus for the one year 2020/21 finance settlement significantly benefits this Council for this further year as the amount received is the same as 2019/20. No changes were made to the new homes bonus calculation where the Government continued to provide financial grant for those local authorities supporting housing growth, although the Government has confirmed that this grant is likely to no longer exist after 2023/24.
- 4.5 The ongoing reductions in Government grant support increases the Council's reliance on other funding streams such as:
- The proposed business rates retention reform system; this is still in consultation with the Government and is not expected to significantly change the current financial position of the Council where business rates will still be redistributed across local government and increased burdens will be transferred from central government to ensure the overall position is fiscally neutral. Information on the proposed future business rates scheme along with the fair funding review (the Review of Relative Needs and Resources of Councils and the potential change in the way funding is allocated) is expected during 2020/21 for implementation in 2021/22.
 - Increasing Council Tax by £5 on a Band D equivalent property; an alternative option in 2019/20 was to increase Council Tax by 2%, but due to this Council charging the third lowest council tax in the UK the financial strategy is based on a £5 rise.
 - Reviewing Fees and Charges across Council services;
 - Investment income and loan interest; delivered from investing the Council's surplus funds through treasury management activities or by through the Capital Programme where investment can be made in their parties. In these instances 'due diligence' and risk management are key.

➤ Revenue income generated from commercial and partnering opportunities.

- 4.6 In addition to the reduction in grant funding and reliance on other funding streams it is also necessary to consider the volatility of inflation, changes in energy prices, reduced investment interest rates, the economic environment and the implications of BREXIT.
- 4.7 The shortfall in Government funding and increase in costs presents a challenging financial outlook for the Council. The Council continues to review plans to generate income and ensure services are provided in a cost effective way enabling the Council to continue to preserve its front-line services for the community at the present time.
- 4.8 Due to the Council's revenue reserve balances it is in a better financial position than most to deal with these financial challenges. It should be noted that as a result of the Local Government Finance Settlement over the 10 year financial strategy the revenue reserve balances continue to fall significantly. Therefore, to maintain the current reserve position it is vital that other income generating opportunities are identified and efforts must be made in setting future budgets to, where possible, preserve these reserve levels and protect the Council's financial position.
- 4.9 In light of the reliance on the ability of the Council to generate funding, a new revenue stream has been established in the financial strategy starting in 2020/21 to realise income where this funding will support the ongoing financial viability of the Council.