

2018/19 Budget Overview 10th January 2018

Impact of the Settlement December 2017

Councillors will be aware that the Settlement figures are distributed to the Council in mid December and at the same time the Secretary of State makes his statement on local government funding for 2018/19. (Referred to as 'the Statement' in this paper). Key elements of the Statement that impact on the budget position for 2017/18 are:

- Confirmation of settlement figures for 2018/19 which had been included in the multi-year settlement of 2016.
- Whether there were any changes to how the New Homes Bonus is distributed.
- Council Tax increase thresholds
- Outcome of the bids to become a business rate pilot area

Whilst there is still substantial uncertainty surrounding how Business Rates will be distributed this will have an impact in later years rather than the budget of 2018/19.

The Council submitted an efficiency plan to the Department for Communities and Local Government (DCLG) in October 2016 and accepted the offer of the 4 Year Settlement, which spanned years 2016/17 to 2019/20.

The figures distributed in mid-December for 2018/19 agreed with those detailed within the 4 year settlement.

Throughout this document reference is made to the Settlement Statement within the relevant section to provide information to Members.

Total Budget Requirement

The proposed General Fund Revenue Account net budget requirement for 2018/19 is **£11.33m**. The comparable net budget requirement for 2017/18 was **£11.39m**.

The MTFs generated in February 2017 forecast a budget gap of £749k for 2018/19 with the majority of this gap being the result of:

- Loss of funding from Leicestershire County Council for recycling credits £505k
- Loss of Pickles funding to support weekly recycling £235k

All indications throughout the year suggested that the budget gap for 2018/19 would be consistent with this estimate until recent weeks when the outcome of two business rate valuation appeals became known to us. These were considerable in value with refunds being due dating back to the 2010 revaluation list. These changes were unexpected and out of Blaby District Council's control. This has had a dramatic impact on the amount of business rates that can be released in 2018/19 and has resulted in the budget gap extending to **£1.294m**.

Funding the Budget

The table below illustrates how the budget is funded and shows the dramatic reduction in business rate income in comparison to 2017/18.

Sources of funding are as follows:-

	2017/18 working budget	2018/19 Base	Variance
	£	£	£
Redistributed National Non Domestic Rates	2,919,235	2,400,158	(519,077)
Revenue Support Grant	467,159	167,114	(300,045)
New Homes Bonus Grant	2,329,576	2,409,779	80,203
Transition Grant	11,110	0	(11,110)
Council Tax (Surplus)/Deficit	63,679	6,654	(57,025)
Council Tax Precept	4,974,908	5,050,860	75,952
	10,765,667	10,034,565	(731,102)

This reflects:

- Redistributed NNDR has reduced by £519k
- £300k reduction in Revenue Support grant funding from that received in 2017/18 and is reflective of that forecast within the MTFS.
- New Homes Bonus (NHB) Grant has risen by £80k. This is £267k higher than that forecast within the MTFS. A total amount of £2.41m of NHB is utilised to support the budget with no further distribution to Parishes, as was agreed at Council in February 2017.
- Council Tax precept has increased by £76k. This is before any increase is applied, but reflects the increase in the tax base (increase in properties) in the district.

It is important to note that the £740k loss of Recycling Credit income and grant money from the Pickles money reduces the core costs in the budget requirement and is in addition to the loss of income shown in the variances above.

The above figures assume the following:

- £200k is released from reserves to support the budget as per the MTFS
- £445k is released from the NNDR income reserve to underpin the reduction in NNDR income.

Budget Gap

Members will be aware that at the Council meeting of 23rd February 2017, decisions were made to ensure that the forecast budget gap for 2018/19 had started to be addressed.

This included decisions as follows:

- to reduce Council Tax Support (CTS) payments to Parish Councils to zero from 2018/19. In 2017/18 the CTS payments to parishes amounted to £196k.

Had Council not made this decision this would have further inflated the current gap and by making the decision at this early stage allowed Parishes to plan for how this reduction was to be accommodated within their budgetary plans. The Statement made no reference to there being any mandate for Local Authorities to pass CTS funding to parish or Town Councils and it is felt unlikely that such a mandate will be implemented in future years.

- to reduce New Homes Bonus (NHB) payments distributed to Parishes to zero from 2018/19. Prior to this decision being made the Council distributed 20% of the first year of NHB to parishes. For 2018/19 this would have resulted in a distribution of £153k.

Together both these decisions made by Council in 2017 contributed **£350k** towards reducing the forecast budget gap.

Despite Council making such decisions the gap for 2018/19 is substantial and the following scenarios illustrate options open to the Council to close some of this gap:

1. Council Tax Increase

Members will be aware that over recent years there has been more of an expectation nationally that Council's will increase Council Tax as a mechanism for closing the financial gap.

For 2018/19 the threshold for Council Tax increases for "core" Band D council tax has been increased by 1%. This means that local authorities are able to increase their Council Tax by 2.99%. An additional amount of **£151k** would be generated with a 2.99% increase which equates to an increase of £4.58 per annum, £157.90 for a Band D equivalent property.

District Councils may however raise Council Tax by **£5** without triggering a referendum. This is still an option that Blaby may look to adopt given it is larger than the 2.99% increase. This option would generate an additional **£165k**, £158.32 for a Band D equivalent property.

It is important to also note that within the Settlement those Authorities with responsibility for Adult Social Care such as Leicestershire County Council retain the additional flexibility to increase their current council tax referendum threshold by up to 3% for the next two years to be used entirely for adult social care. They may not however exceed a 6% increase over the next 2 years. The County Council therefore have the option to increase Council Tax by 6% in total in 2018/19. The Leicestershire County Council proportion of the total Council Tax charge forms approx. 70% of the total charge (based on 2017/18).

Police and Crime Commissioners will be able to increase their Band D council tax by the higher of 3% or £12.

2. Review of Refuse and Recycling Service

This option is due to be considered by Council on the 23rd January. Should Council choose to change the refuse and recycling frequency, substantial savings can be made, but the full year effect of these will not be seen until 2018/19.

Contributions from Reserves

Contributions from General Reserve Fund	£200,000
Contribution from Other Earmarked Reserves	£611,828 (see schedule)

A table of reserves is provided separately which sets out the overall position on reserves and balances.

New Homes Bonus

The Council has continued to improve its performance in terms of generating New Homes Bonus. Since 2013/14 the New Homes Bonus has been used to underpin the budget requirement as government funding has reduced. In 2018/19 an amount of **£2.410m** is being utilised to fund services.

In 2017/18 the government brought in changes to NHB which reduced the period of years that NHB was paid from 6 years down to 5. 2018/19 sees a further reduction to 4 years. The Council's MTFS allowed for this further reduction. Had NHB remained at 5 years a further £313k of NHB would have been received in 2018/19.

In addition a new baseline was brought in, the baseline being 0.4% growth in housing. No NHB will be paid up to 0.4% growth. It was expected that this baseline was going to be increased in 2018/19 but no changes have been made this year.

The government was considering withholding NHB payments to local authorities that were not planning effectively. This may have involved those authorities without a local plan or those that have refused planning applications that are successful following appeal. No further consultation has been carried out on this point and the local government funding statement remains silent on any further changes to NHB.

Business Rates

Since the Localisation of Business Rates in 2013/14 local authorities have been in a position to benefit from a proportion of growth in business rates and Blaby has in past years begun to release some of this growth to support the budget.

There has however, always been a risk that appeals put forward by businesses may impact unfavourably on the amount of income that Blaby is able to release.

It has been difficult to forecast the growth given the impact of appeals against the rateable values of commercial properties in the District.

A revaluation exercise was run by the Valuation Office (VO) in 2010 and there are still appeals outstanding that date back to this time.

This was complicated in 2017/18 by a further revaluation exercise which has been completed nationally and may cause further appeals to be made against rateable values.

Blaby use advice from experts to understand the appeals that have been put forward and to make a provision for these appeals. Increasing the provision will reduce the amount of business rate income that can be retained.

In recent weeks two appeals have been concluded by the VO for two properties on Fosse Park. A provision was in place for one of the properties, but the new valuations issued by the VO resulted in refunds amounting to £2.5m with the reductions in rateable values of £850k. This along with the removal from the rating list of the Young Offenders Centre and a property on Grove Park resulted in a further £876k reduction in rateable value. Together these four changes reduced the rateable value of these properties by £1.7m.

These examples illustrate the volatility that can be experienced through rating changes. This is an issue faced by all districts and isn't unique to Blaby.

Councillors will be aware that the mechanism for the distribution of business rates is expected to be changed in the future. The Statement appears to suggest that there will be a new baseline reset in 2020/21:

“Local authorities will be able to keep that same share of growth on their baseline levels from 2020 to 2021, when the system is reset. So from 2020 to 2021 business rates will be redistributed according to the outcome of the new needs assessment subject to suitable transitional measures.”

No detail is available to be able to interpret how this may impact Blaby financially and will also rely on the outcome of the Fair Funding Review which is explained in more detail below.

Councillors will recall that Blaby was part of a Leicestershire bid to become a business rate pilot scheme for 2018/19. The Statement listed those authorities that were successful applicants – Leicestershire not being one of them.

No feedback has been received as to why Leicestershire was unsuccessful but it is hoped that a further bidding round will be available for 2019/20 and an updated bid may be considered to be put forward by Leicestershire.

Councillors will be aware that commercial development in the district is positive and this suggests that Blaby will be in a position to benefit from growth in business rates in the future

Whilst there is still lack of certainty as to the impact these changes will have on Blaby, the fact that the authority has an Economic Development Strategy (which was refreshed in 2016) and works in partnership with local businesses in the district can only suggest the correct approach is being taken to secure funding generated from the future distribution of Business Rates.

We will of course be monitoring closely how the timing of substantial commercial developments may fall given the government are suggesting a business rate base exercise is to happen in the future.

Fair Funding Review

The current system for allocating local government funding has been in place for over a decade and during that time demand for local government services has changed. There is a desire for local government funding to be decided on a fair, robust and evidenced-based way, one that reflects the most up-to-date picture of council's relative needs and resources.

A technical consultation has therefore been released to assist with the development of the review which will aim to:

- **set new baseline funding allocations** for local authorities,
- deliver an **up-to-date assessment of the relative needs of local authorities**. The Government has been clear that there will continue to be redistribution of business rates between local authorities to take account of relative needs; the review will determine what the redistribution should be,
- **examine the relative resources of local authorities**. The Government will take a fresh look at how council tax income should be taken into account when redistributing business rates at local government finance settlements, and will also consider other potential sources of income available to councils,
- focus initially on the **services currently funded through the local government finance settlement**, and
- be **developed through close collaboration with local government** to seek views on the right approach. Alongside on-going engagement with the sector and formal consultation, government plan to publish a series of technical papers to ensure that local authorities are well sighted on the progress. This will include careful consideration of transitional arrangements to ensure any changes in funding are introduced in a manageable way.

Whilst the consultation paper has been released, there is very little information at this point in time which suggests how Blaby will fair from such a review.

General Assumptions within Budget Requirement

- The establishment budget allows for the following:
 - a 2% pay award has been allowed for in the overall budget, however, individual portfolio summaries include the effects of a 1% increase given these commenced being prepared prior to any announcement being made regarding the latest 2% offer. This, along with consequential increases in NI and pension contributions, equates to an increase of £256k.
 - Contractual increments
 - Employers' National Insurance Contributions at 2017/18 rates
 - Apprentice Levy £38,000
 - The payment of the National Living Wage

- Planning appeals are not included within the budget requirement but expenditure will be funded from balances if it is necessary.
- Portfolio figures are shown before any recharges from department to department in order that the spending service is scrutinised rather than the method of apportionment across departments.
- Capital expenditure is as per the draft previously presented to Scrutiny Commission on 22nd November 2017.

Fees and Charges

All fees and charges have been individually reviewed by the service to which they apply and will be uplifted where possible. It is important to note that many charges are statutory fees and can not be altered.

Any significant changes will be discussed within the individual service portfolio reviews.

Note: The Settlement announced that planning fees were able to be uplifted by 20% if the proceeds are invested in the planning service. This comes into effect from the 17th January and the fees have been uplifted under delegated authority. A report will shortly be brought to Cabinet regarding the investment of resource in the Planning department as is required under the terms of the increase. Based on current planning income it is expected that this could bring in an additional £120k in planning fees to help resource the Planning department.

Financial Budget Summary

	Approved 2017/18 £	Working 2017/18 £	Base 2018/19 £
<u>Net Direct Expenditure by Portfolio</u>			
Community Services	1,866,510	2,051,132	1,247,730
Corporate Services & Neighbourhood Services	3,381,749	3,673,475	4,510,645
Finance, Efficiency & Assets	1,712,788	1,820,218	1,911,876
Health Improvement, Leisure & Regulatory Services Leader	931,124	1,000,187	809,386
Planning, Housing Strategy, Economic & Community Development	1,375,639	1,428,883	1,447,298
	1,055,261	1,517,838	1,065,071
Net Direct Expenditure	10,323,071	11,491,732	10,992,006
Revenue Contributions towards Capital Expenditure	0	657,044	140,000
Minimum Revenue Provision	818,210	769,267	886,351
Council Tax Support Grant paid to Parish Councils	196,301	196,301	0
Other Appropriations & Accounting Adjustments	211,343	229,453	122,530
Net Total Expenditure	11,548,925	13,343,797	12,140,887
Contribution to/(from) Earmarked Reserves	(161,215)	(2,341,480)	(811,828)
Contribution to/(from) General Fund Balances	0	(236,650)	0
Net Budget Requirement	11,387,710	10,765,667	11,329,059
Redistributed National Non Domestic Rates	(3,132,756)	(2,445,836)	(1,948,887)
Revenue Support Grant	(467,159)	(467,159)	(167,114)
New Homes Bonus Grant	(2,329,576)	(2,329,576)	(2,409,779)
Transition Grant	(11,110)	(11,110)	0
Other Non Ringfenced Government Grants	(408,522)	(473,399)	(451,271)
Council Tax (Surplus)/Deficit	(63,679)	(63,679)	(6,654)
Demand on Council Tax	(4,974,908)	(4,974,908)	(5,050,860)
Total Funding Envelope	(11,387,710)	(10,765,667)	(10,034,565)
Funding Gap 2018/19			£1,294,494