

Appendix A

2019/20 Budget Overview 9th January 2019

Impact of the Settlement December 2018

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 2019/20. (referred to as 'the Statement' in this paper). Key elements of the Statement that impact on the budget position for 2019/20 are:

- Confirmation of settlement figures for 2019/20 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 75% business rate pilot area

Alongside the Settlement the government also published technical consultation papers on:

- "Business Rate Retention Reform" – a paper setting out proposals to reform the Business Rate Retention System.
- "A review of local authorities relative needs, relative resources and transitional arrangements" – a paper setting out proposals on the Fair Funding Review.

Whilst there is still substantial uncertainty surrounding how changes to Business Rate Retention and the Fair Funding Review will impact on Blaby, these changes are proposed to be put in place for 2020/21 and will not directly impact on the budget for 2019/20.

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 2019/20 were as expected.

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 2019/20 is **£12.3m**. The comparable net budget requirement for 2017/18 was **£11.3m**.

The MTFs generated in February 2018 forecast a budget gap of £108k for 2019/20 after taking into account the savings that were expected to be generated by the decision to move to an alternate weekly collection regime for refuse and recycling.

Funding the Budget

The table below illustrates how the budget is funded and shows the reliance the Council places on income streams relating to Business Rate Retention and New Homes Bonus.

Sources of funding are as follows:-

	Working Budget 2018/19	Base 2019/20	Variance
Redistributed National Non Domestic Rates	2,354,254	3,096,714	742,460
Revenue Support Grant	167,114	0	(167,114)
New Homes Bonus Grant	2,409,779	2,851,626	441,847
Transition Grant	0	0	0
Other Non Ringfenced Government Grants	775,977	836,553	60,576
Council Tax (Surplus)/Deficit	14,756	13,383	(1,373)
Council Tax Precept	5,215,580	5,294,368	78,788
	<u>10,937,460</u>	<u>12,092,644</u>	<u>1,155,184</u>

This reflects:

- Redistributed NNDR has increased by £743k
- £167k reduction in Revenue Support grant funding to zero. A reduction from that received in 2018/19 and is reflective of that forecast within the MTFs.
- New Homes Bonus (NHB) Grant has risen by £442k. This is £31k higher than that forecast within the MTFs. A total amount of £2.9m of NHB is utilised to support the budget.
- Other Non Ringfenced grants relate to S31 grants which compensate the Council for providing Business Rate Reliefs such as Small Business Rate Relief.
- Council Tax precept has increased by £79k. This is before any increase is applied, but reflects the increase in the tax base (increase in properties) in the district.

Budget Gap

Members will be aware that leading up to this point Council has made difficult decisions to ensure budget gaps that were forecast were filled. These included decisions as follows:

- to reduce Council Tax Support (CTS) payments to Parish Councils (£196k saving)
- to reduce New Homes Bonus (NHB) payments distributed to Parishes to zero from 2018/19 (£153k saving).
- Movement to an alternate weekly refuse and recycling system (£350k saving).

Council making such decisions, alongside increases to Business Rates retained income and growth in New Homes Bonus, has closed the Council's funding gap for 2019/20 to a gap of **£166k**.

There is substantial future financial risk to the Council that may result from the proposed changes to the Business Rate Reform, the Fair Funding Review and the Future of New Homes Bonus payments – as can be seen in the draft Medium Term Financial Summary document at Appendix E.

Council has the option to increase Council Tax in recognition of the future financial challenges that may result from the proposed changes.

1. Council Tax Increase

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

For 2019/20 the threshold for Council Tax increases for “core” Band D Council Tax has remained unchanged with local authorities able to increase their Council Tax by up to 3% (2.99%). An additional amount of **£158k** would be generated with a 2.99% increase which equates to an increase of £4.73 per annum, £163.05 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 marginally larger (3.16%) than the 2.99% increase. This option would generate an additional **£167k**, £163.32 for a Band D equivalent property.

For Shire County Councils increases for ‘core’ Band D Council Tax has remained unchanged with an increase of up to 3% being allowed.

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 2% subject to total increases for the Adult Social Care precept not exceeding 6% between 2017-18 and 2019/20.

The Leicestershire County Council proportion of the total Council Tax charge forms approx. 70% of the total charge (based on 2018/19).

Police and Crime Commissioners will be able to increase their Band D Council Tax by up to £24 (£12 in the previous year).

General Assumptions within Budget Requirement

- The establishment budget allows for the fact that the National Joint Council for Local Government announced a two year pay settlement on 10th April 2018, covering the financial years 2018/19 and 2019/20. The two year settlement incorporated a new pay spine effective from 1st April 2019, and the implications of this were approved by Council on 25th September 2018.

The budget proposals for 2019/20 take into account the new pay spine, the cost of employers’ national insurance and pension contributions, contractual increments, and the Apprenticeship Levy. (More detail relating to this point was included within the report “Establishment 2018/19 19/20” presented to

Cabinet Executive on 5th November 2018 and presented at a Scrutiny Commission on 28th November).

- 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 28nd November 2018.

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.

New Homes Bonus

The Council has continued to improve its performance in terms of generating New Homes Bonus (NHB). Since 2013/14 the New Homes Bonus has been used to underpin the budget requirement as government funding has reduced. In 2019/20 an amount of **£2.851m** 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 saw a further reduction to 4 years.

In 2017/18 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 2019/20 but no changes have been made this year.

The future of NHB is very uncertain and poses a future financial risk for the Council. There is little mention of the future of NHB in the Fair Funding review and it is unclear whether there will be any damping allowance should NHB Funding be removed. Indications are currently that if NHB is removed it will be done on a phased basis with no future payments being received. If this were to be the case this would remove £750k from the NHB funding each year from 2020/21, with a cumulative impact of removing £3m from the funding envelope by the 4th year (2023/24).

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.

Councillors will be aware that the mechanism for the distribution of business rates is expected to be changed in 2020/21. This does not impact on 2019/20 financial year but is covered later on within this appendix.

Councillors will also recall that Blaby was part of a Leicestershire bid to become a 75% business rate pilot scheme for 2019/20. The Statement listed those authorities that were successful applicants – Leicestershire being one of them. This means that an additional £13.7m will be retained in Leicestershire with an estimated apportionment to Blaby specifically of approx. £400k to support invest to save expenditure and infrastructure to promote housing and business growth. This additional income is not included in the budget at this point in time but will be incorporated in initiatives throughout the year in line with the bid and reported to Members through individual reports and the quarterly financial reporting.

Financial Budget Summary

	Approved 2018/19 £	Working 2018/19 £	Base 2019/20 £
<u>Net Direct Expenditure by Portfolio</u>			
Community Services	1,274,610	1,793,619	1,531,817
Corporate Services & Neighbourhood Services	4,186,078	4,161,060	4,411,616
Finance, Efficiency & Assets	1,917,272	1,785,654	1,708,030
Health Improvement, Leisure & Regulatory Services	790,703	989,412	853,737
Leader	1,451,396	1,378,715	1,542,660
Planning, Housing Strategy, Economic & Community Development	1,065,071	1,581,172	1,261,328
Net Direct Expenditure	10,685,130	11,689,632	11,309,188
Net Recharges	0	0	0
Capital Charges	0	0	0
IAS19 Adjustments	0	0	0
	10,685,130	11,689,632	11,309,188
Revenue Contributions towards Capital Expenditure	140,000	1,374,704	0
Minimum Revenue Provision	886,351	857,511	913,484
Council Tax Support Grant paid to Parish Councils	0	0	0
Other Appropriations & Accounting Adjustments	126,457	233,100	0
Adjustments for forthcoming costs			211,146
Net Total Expenditure	11,837,938	14,154,947	12,433,818
Contribution to/(from) Earmarked Reserves	(366,666)	(3,048,199)	(175,484)
Contribution to/(from) General Fund Balances	(214,526)	(169,288)	0
Net Budget Requirement	11,256,746	10,937,460	12,258,334
Redistributed National Non Domestic Rates	(2,590,645)	(2,354,254)	(3,096,714)
Revenue Support Grant	(167,114)	(167,114)	0
New Homes Bonus Grant	(2,409,779)	(2,409,779)	(2,851,626)
Transition Grant	0	0	0
Other Non Ringfenced Government Grants	(858,872)	(775,977)	(836,553)
Council Tax (Surplus)/Deficit	(14,756)	(14,756)	(13,383)
Council Tax Precept	(5,215,580)	(5,215,580)	(5,294,368)
	(11,256,746)	(10,937,460)	(12,092,644)
Funding Surplus/(Gap) 2019/20			(165,690)

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 refine how the government determines relative needs for services with a further consultation being undertaken later in 2019.

The aims of the review have remained unchanged from those detailed in 2017 and are as follows:

- **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 still lack of clarity as to how the review impacts directly on Blaby District Council. Detailed below are elements from the consultation which are relevant and may help to inform members as to how the review may progress:

- Proposals appear to result in a simpler 'needs' assessment – this usually results in a flatter distribution of funding.
- Government's proposal is to set up a Foundation Formula. Within such a formula, funding would be distributed largely on a per head basis and it will form the largest element of the new funding formula.
- Accompanying the Foundation Formula will be 7 service-specific funding formulae (currently there are 15). Only 2 of these impact upon Shire Districts; Legacy Capital Finance and Flood Defence and Coastal Protection. Neither of which are of particular relevance to Blaby.

RELATIVE NEED FORMULAS		SHIRE AREAS			METROPOLITAN AREAS	LONDON	OTHER
		Unitaries	Counties	Districts	Metropolitan Districts	London boroughs	Fire authorities ⁴
Foundation Formula	Upper tier	●	●		●	●	
	Lower tier	●		●	●	●	
1) Adult Social Care		●	●		●	●	
2) Children and Young People's Services		●	●		●	●	
3) Public Health		●	●		●	●	
4) Highways Maintenance		●	●		●	●	
5) Fire & Rescue ⁵		●	●				●
6) Legacy Capital Finance		●	●	●	●	●	●
7) Flood Defence and Coastal Protection		●		●	●	●	

- Deprivation has been a primary driver for funding in the past (other than population). It is proposed that deprivation is removed from the calculation of the Foundation Formula.
- An Area Cost Adjustment (ACA) will exist to compensate authorities for the difference in unit costs of providing services. Elements of the ACA include; rates cost adjustment; labour cost adjustment and a remoteness adjustment.
- It is expected that the Government will use population projections in the funding formula from 2020/21.
- A Relative Resource Adjustment may be used to take into account the authorities ability to generate Council Tax and there is the suggestion that this could be expanded to include income from sales and fees and charges. The one income stream that is still being considered to include are off-street car parking income.
- Government is considering devising a damping regime that takes into account all the various changes in the Fair Funding Review, the baseline reset (Business Rate Reform) and any other changes in funding.

Business Rate Retention Reform

The Government's ambition for business rates retention is:

- To give local government greater control over the money it raises
- To incentivise local authorities to support local economic growth

As such the business rate retention scheme is designed to transfer a level of risk and reward to local authorities.

The consultation paper still does not give clarity on how Business Rate Retention Reform will impact Blaby, however, there are some concerning elements that pose considerable risk to the retained business rates that Blaby District Council currently rely upon.

Detailed below are elements from the consultation which are relevant and may help to inform members as to how the review may progress:

- Ministers are still minded to have a full baseline reset from 2020/21. This is the line from which growth is measured. If this goes ahead, there is potential for Blaby to lose the benefit of the growth it has generated since 2013/14.
- The new system is likely to reward growth more generously. (75% retention rate rather than 50% with a limited levy).
- The tier split of the increased retained rates is likely to alter. Currently Blaby retains 40% (but is subject to a further levy) with County Council at 9% and Fire at 1%.
- There are still suggestions that some specific grants will be funded from Business Rate retention e.g. Public Health.

Medium Term Financial Summary

The impact of the changes that the Fair Funding Review; Business Rate Retention Reform and New Homes Bonus will cause are difficult to model.

The Fair Funding Review consultation suggests that some damping will be brought in to protect local authorities from dramatic changes in funding levels but that this will unwind over time, something that hasn't historically happened.

The Medium Term Financial Summary at appendix E attempts to model some of the financial impact of changes to future funding.