

# 2020/21 Budget Update

Report of the Head of Finance (Portfolio: Finance)

## Recommended:

1. That the savings options, income generation proposals and budget pressures, shown in Annexes 1 - 3, be endorsed.
2. That progress on achieving a balanced budget position for 2020/21 and over the medium term, shown in Annex 4, be endorsed.
3. That the feedback from businesses on the budget consultation, shown in Annex 5, be considered.

## SUMMARY:

- This report updates the Overview and Scrutiny Committee (OSCOM) on changes to the 2020/21 budget forecast since the budget strategy was presented in November. This includes; the provisional Local Government Finance Settlement, the Local Council Tax Support Scheme, New Homes' Bonus provisional allocations and changes to revenues savings and pressures.
- It also provides an updated Medium Term Financial Forecast covering 2021/22 and 2022/23.
- In order to achieve a balanced budget, it will be necessary to close the remaining gap of £57,600 before figures are finalised in February 2020.

## 1 Introduction

- 1.1 The initial budget strategy and forecast for 2020/21 were presented to the OSCOM Budget Panel on 10<sup>th</sup> October, OSCOM on 16<sup>th</sup> October and to Cabinet on 6<sup>th</sup> November 2019.
- 1.2 Since that time, work has been carried out to revise the current year estimates, prepare original estimates for 2020/21 and update the Medium Term Financial Forecast.
- 1.3 The purpose of this report is to;
  - Provide the latest available information on the provisional Local Government Finance Settlement and how it affects Test Valley.
  - Provide an update on the latest savings options, income generation proposals and revenue pressures.

- Update the Medium Term Financial Forecast after considering the above.
  - Outline the remaining stages of the budget process.
- 1.4 Assuming no changes to the figures presented in this report, the Council has to close a gap of £57,600 in order to achieve a balanced budget for 2020/21.

## **2 2019/20 Revised Forecasts**

- 2.1 Work is progressing well in preparing the revised forecasts for 2019/20 but detailed figures are not ready at this stage. However, some of the more significant factors that are being considered in the preparation of the forecasts are explained below.
- 2.2 The original budget for 2019/20 assumed there would be no change in the level of general reserves. This remains the same and general reserves are expected to remain at £2M at the end of the year.
- 2.3 Cabinet received a mid-year budget report on 6<sup>th</sup> November that highlighted significant budget variances in the first half of the financial year. The report highlighted additional income and savings of £110,000 in Services and £99,000 additional investment income to the end of September.
- 2.4 It is anticipated that any further variances that are identified in setting the revised forecasts for 2019/20 will be shown as a transfer to earmarked reserves. The decision on how to allocate this will be taken at the end of the year once the outturn position is known.

## **3 2020/21 Budget Forecast**

### **3.1 Savings Options, Income Generation Proposals and Budget Pressures**

This report identifies a number of new savings, increased income streams and additional pressures. These have been identified by Heads of Service, budget holders and Service Accountants as the estimates for next year have been progressed.

Annex 1 shows all the savings options that have been proposed. These include new items totalling £95,000 for consideration.

Annex 2 follows the same format as Annex 1 and shows all income generation proposals as at November and also includes some new items of additional income. The net additional income proposals identified in this report total £247,100.

Annex 3 details the budget pressures identified in October along with some new items. Net additional pressures of £314,800 have been included.

### 3.2 Budget Forecast 2020/21

As with the revised forecast figures for 2019/20, the original estimate figures for 2020/21 are also currently being worked on and there may be further changes.

When the budget forecast was presented in November 2019 there was a balanced budget. The current budget estimates include some major variances with the gap increasing to £57,600. A reconciliation of the movement in this gap is shown in the table below.

	£'000
<b>Budget gap per November report</b>	<b>0</b>
Decrease in business rates baseline funding – Paragraph 3.3	13
Additional savings proposals – Annex 1	(95)
Additional income generation proposals – Annex 2	(247)
Additional pressures – Annex 3	315
Transfer to Chantry Centre Planned Maintenance Reserve	111
Saving on inflation estimate	(39)
<b>Current Budget gap</b>	<b>58</b>

There are a number of factors that will impact on the completion of the estimates for 2020/21 that still retain a degree of uncertainty. These are discussed in the following paragraphs.

### 3.3 Local Government Finance Settlement

The provisional Local Government Finance Settlement (announced on 20<sup>th</sup> December 2019) has provided the headline grant figures that the Council can expect to receive in core funding (Settlement Funding Assessment (SFA)) in 2020/21.

After years of reductions, the SFA for 2020/21 shows an increase of 1.6% (£38,177). This is the first increase since 2013.

The Medium Term Financial Strategy presented to Cabinet on 6<sup>th</sup> November made assumptions about the Finance Settlement. These assumptions were slightly optimistic in forecasting the SFA at £2.394M. The provisional SFA announced by the government is some £13,000 less, at £2.381M.

### 3.4 Council Tax Increase – Referendum Threshold

When the Budget Strategy was presented in November, it was assumed that the Band D level of Council Tax would increase by £5 from £141.41 to £146.41 for 2020/21. The Government has now released its Referendum Principles Report for 2020/21 confirming that a £5 increase would be allowable and would not trigger a referendum.

When the Cabinet next meets on the 12<sup>th</sup> February, the final Local Government Finance Settlement figures will have been announced. Members will then have the opportunity to consider options for Council Tax levels to recommend to Full Council on the 26<sup>th</sup> February.

As in previous years, no Council Tax referendum principles have been applied to parish and town councils.

### 3.5 Local Council Tax Support Scheme

2019/20 is the sixth year that the Local Council Tax Support (CTS) Scheme has been in operation. During 2019, the Council consulted on a number of changes to the scheme. The consultation received 136 responses. After reviewing the results, OSCOM made the following recommendations to change the Scheme for 2020/21:

- a) That a fixed reduction of £4 per week should be introduced for non-dependent adults living in a property;
- b) That eligibility for the Scheme should be restricted to applicants with less than £6,000 of eligible capital;
- c) That the Second Adult Rebate should be removed from the Scheme, and
- d) That extended payments should be removed from Scheme.

All of these proposed changes were endorsed at the Cabinet meeting of 18<sup>th</sup> December 2019 and recommended for approval by Council when it next meets on 29<sup>th</sup> January, 2020.

The changes that have been recommended to the Council's CTS scheme are expected to affect only a small number of households. If approved, it is not anticipated that this will require a change to the budget forecast for 2020/21.

### 3.6 Localisation of Non-Domestic Rates (NDR)

2013 year saw the introduction of the Business Rate Retention Scheme. This was a significant change for local government that aimed to provide some incentive for local authorities that can achieve business growth, but also carried with it significantly more risk than the previous "pooling" arrangements.

Each year's local government finance settlement builds upon the business rate retention starting position that was established in the 2013-14 local government finance settlement.

The table below shows this starting position compared with the provisional finance settlement figures for 2020/21:

	£	Comments
Area Business Rates	44,475,312	Average collectable over last 2 years
Less: Govt. share	<u>(22,237,656)</u>	Represents 50% of amount collectable
Local Business Rates Baseline	22,237,656	Represents 50% of amount collectable
TVBC BR Baseline	17,790,125	Represents 80% of above figure
Less: Tariff paid to Govt.	<u>(15,709,857)</u>	
TVBC Baseline Funding 2013/14	2,080,268	Retained share of Business Rates
TVBC Baseline Funding 2014/15	2,120,774	Retained share of Business Rates
TVBC Baseline Funding 2015/16	2,161,298	Retained share of Business Rates
TVBC Baseline Funding 2016/17	2,179,309	Retained share of Business Rates
TVBC Baseline Funding 2017/18	2,223,802	Retained share of Business Rates
TVBC Baseline Funding 2018/19	2,290,611	Retained share of Business Rates
TVBC Baseline Funding 2019/20	2,343,104	Retained share of Business Rates
TVBC Baseline Funding 2020/21	2,381,281	Provisional share of Business Rates

Work is still being carried out to estimate levels of income, appeals in the pipeline, likely future appeals, discounts and reliefs, etc. By the end of January 2020, it is hoped that the Council will have a better understanding of the likely financial position compared with the baseline funding announced by the Government shown above.

### 3.7 Revenue Support Grant

Revenue Support Grant (RSG) is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the local government finance settlement.

The provisional local government finance settlement shows a continuing and expected reduction in the amounts of grant support given to local authorities with the Government following through on their stated intention to phase out RSG entirely by 2020/21. For this Council, the actual and provisional figures are as follows:

2013/14	£3.127m
2014/15	£2.445m = 21.8% reduction year on year
2015/16	£1.696m = 30.6% reduction year on year
2016/17	£1.012m = 40.3% reduction year on year
2017/18	£0.417m = 58.8% reduction year on year
2018/19	£0.056m = 86.6% reduction year on year

2019/20      £NIL      = 100% reduction year on year  
2020/21      £NIL

As expected and detailed in the Budget Strategy in November 2019, the Government have eliminated negative RSG with the cost funded by the Government.

### 3.8 Inflation

The budget forecast assumes a general zero inflation allowance for all expenditure budgets except for contractual obligations and a possible staff pay award.

These figures are estimates of what may occur during the next financial year and may increase or decrease before the budget is set, but currently a saving of £39,000 is estimated.

At its meeting on 18<sup>th</sup> December 2019, the Bank of England's Monetary Policy Committee (MPC) voted by a majority of 7-2 to maintain Bank Rate at 0.75%. CPI inflation remained at 1.5% in November and core CPI inflation remained at 1.7%, broadly as expected. The headline rate is still expected to fall to around 1.25% by the spring, owing to the temporary effects of falls in regulated energy and water prices.

In terms of prospects for interest rates, monetary policy could respond in either direction to changes in the economic outlook in order to ensure a sustainable return of inflation to the 2% target. The MPC has said that it will, among other factors, continue to monitor closely the responses of companies and households to Brexit developments as well as the prospects for a recovery in global growth.

### 3.9 Investment Income

The income that the Council earns from its investment portfolio is dependent on three key factors; the prevailing base interest rate, the level above or below the base rate that the Council can invest at and the size of the investment portfolio.

The Council regularly receives interest rate forecasts from two external sources. An interest rate rise of 0.25% to 1% from the current base rate of 0.75% is currently forecast for the first quarter of 2021.

Investments of up to three months currently attract typical interest rates slightly lower than base rate at 0.7%. However, a one-year investment attracts an average return of around 0.9%.

The perceived risk in the banking sector has eased over the past six years and there are now more creditworthy counterparties with which investments for periods of up to one year can be placed. The over-riding priority continues to be the security of investments rather than the return on them.

The investment portfolio is estimated to be between £57M and £68M throughout the year. This comprises the Council's normal cash flow balances and both Capital and Revenue Reserves earmarked for specific purposes.

### 3.10 New Homes' Bonus

When the Budget Strategy was presented in November, the forecast income from the New Homes' Bonus (NHB) in 2020/21 was £3.375M. The provisional figures for 2020/21 have now been announced and the Council can expect to receive £3.561M – some £186,000 more than forecast.

This grant will be transferred into the New Homes' Bonus reserve where it will be used in accordance with the Budget Strategy.

As assumed in the Budget Strategy, the New Homes Bonus national baseline has not increased from 0.4% with the methodology for calculating New Homes Bonus payments remaining unchanged for 2020/21. However, the future of the scheme beyond next year looks very uncertain.

### 3.11 Changes in local government funding in 2021/22

It is likely that there will be a number of consultations early next year that will be implemented in 2021/22:

- (a) A consultation on the future of the New Homes Bonus – The Government has announced that it will consult on the future of the housing incentive in the spring as it is not clear that the New Homes Bonus in its current form is focussed on incentivising homes where they are needed most. The consultation will “include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance.”
- (b) A consultation on the Fair Funding Review (FFR) – Where the Government is seeking to design a new relative needs assessment methodology that will deliver: simplicity, transparency, sustainability, robustness and stability and will be based on the most up-to-date data available.
- (c) A consultation on reform of the Business Rates Retention Scheme (BRRS) – Where the Government seems minded to have a full baseline reset in 2021: this will have significant financial consequences for high-growth authorities such as this council. A new system is also likely to reward growth more generously (75% retention, with a very limited levy). But the distribution of those rewards could change in two tier areas, with counties possibly getting a larger share than is currently the case.

It is important to recognise that the outcome of the FFR will be a “package”. It needs to be politically acceptable and the outcome cannot be one that threatens the financial viability of individual authorities or classes of authority. In the end ministers will have to make decisions on how all the elements come together, including the FFR, reform of business rates and the Spending Review.

### 3.12 Other risks affecting the budget process

There are a number of other factors that will affect the budget process to a lesser extent. These include items such as: fee and other income streams that are largely outside the control of the Council, and staff vacancy rates.

In light of the variances identified in 2019/20 to date, Heads of Service have continued to be more optimistic in their approach to setting budgets for fee income. In the event that the actual income does not reach budgeted levels it will be possible to draw from the Income Equalisation Reserve at the end of the year to ensure that there is no negative impact on the General Fund balance.

## **4 Medium Term Financial Forecast**

4.1 The Medium Term Financial Forecast has been updated to reflect the above changes and the latest version is shown in Annex 4. The position in respect of 2020/21 is addressed in section 3 above.

4.2 The figures for 2021/22 and 2022/23 assume that all savings to close the budget gap for 2020/21 are sustainable and will continue in the medium term.

4.3 In order to maintain a balanced budget, current forecasts indicate a deficit of £508,000 in 2021/22. This amount reduces by £204,000 to £304,000 to close the forecast budget gap for 2022/23.

## **5 External Consultation on the Budget**

### Consultation with local business

5.1 In previous years, the Finance Portfolio Holder, Head of Finance and Economic Development Officer have met with representatives from local businesses. This consultation has produced very few comments or queries on the Council's budget strategy.

5.2 In view of this, this year the Economic Development Officer sent copies of the Council's Medium Term Financial Strategy and budget forecast to the Hampshire Chamber of Commerce: Andover & Romsey committees, Stockbridge Business Association, Andover BID Manager, Romsey Town Centre Manager and to the Federation of Small Businesses (FSB) inviting their (and their members) responses by the 3<sup>rd</sup> January, 2020. The comments received are generally positive, especially in relation to: the control of the Council's budget, support for businesses, and new initiatives. All comments received are detailed in Annex 5.

## **6 The Next Steps in the Budget Process**

6.1 Any OSCOM recommendations from this meeting will be considered by Cabinet on 12<sup>th</sup> February when the final budget report will be presented.

6.2 The final budget report will be presented to Cabinet on 12<sup>th</sup> February 2020 for recommendation to Council on 26<sup>th</sup> February.

## **7 Risk Management**

- 7.1 A risk assessment has been completed in accordance with the Council's Risk management process and has identified some significant (red and amber risks). These are detailed in the Medium Term Financial Strategy report presented to Cabinet on 6<sup>th</sup> November 2019.

## **8 Resource Implications**

- 8.1 The resource implications of the 2020/21 budget process and the Medium Term Financial Forecast have been discussed throughout the report.

## **9 Equality Issues**

- 9.1 This report is for information purposes, so the Council's EQIA process does not need to be applied.

## **10 Conclusion and reasons for recommendation**

- 10.1 This report provides an update on the budget strategy that was approved in November 2019. It takes into account the latest developments that will affect the budget process and forecasts a budget gap of £58,000 for 2020/21.

- 10.2 The final budget report will be presented to Cabinet on 12<sup>th</sup> February 2020.

### Background Papers (Local Government Act 1972 Section 100D)

"Provisional local government finance settlement 2020 to 2021" - MHCLG Consultation December 2019

### Confidentiality

It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.

No of Annexes:

5

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Date:

22<sup>nd</sup> January 2020