

STROUD DISTRICT COUNCIL**AGENDA
ITEM NO****STRATEGY AND RESOURCES COMMITTEE****TO COUNCIL ON 18 OCTOBER 2018**This is a copy of Agenda Item 13c to the Committee on
4 October 2018**7b(iv)**

Report Title	BUDGET STRATEGY 2019/20 TO 2022/23
Purpose of Report	To set out the assumptions that will be used when preparing the upcoming Medium Term Financial Plan
Decision(s)	The Committee RESOLVES to: (1) Approve the Budget Strategy 2019/20 to 2022/23 as set out in this report, including the decision to bid for Business Rates Pilot status.
Consultation and Feedback	Formal budget consultation is currently taking place in the form of a telephone survey of local council tax and business rate payers
Financial Implications and Risk Assessment	There are no financial implications arising directly from this report, but it does summarise the financial position over the medium term, and the measures that have been taken to mitigate the impact of reduced funding levels. Andrew Cummings – Head of Finance (Section 151 Officer) Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk
Legal Implications	There are no legal implications arising directly from this report. The implications of any of the measures referred to below will need to be considered at the point of implementation. Mike Wallbank Solicitor Mike.Wallbank@stroud.gov.uk
Report Author	Andrew Cummings – Head of Finance (Section 151 Officer) Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk
Options	To review assumptions made in funding. To challenge long term cost projections.
Performance Management Follow Up	The budget and savings proposals for the Housing Revenue Account and General Fund will be considered by Service Committees in December 2018 and Strategy and Resources Committee in January 2019, with Council budget approval meeting also in January 2019.

Background Papers/ Appendices	Appendix A – Draft Medium Term Financial Plan 2019/20 to 2022/23 Appendix B – Current assumptions on budget changes
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1. INTRODUCTION / BACKGROUND

- 1.1 This report set outs the current assumptions on funding available throughout the period 2019/20 to 2022/23, and initial estimates on the level of cost pressures and savings that the Council may expect.
- 1.2 That information forms the basis for the detailed budget setting process now taking place throughout the Authority. Officers are reviewing all expenditure and income budgets to determine appropriate levels and identify savings where possible.
- 1.3 The Council's Constitution sets out the process for the budget-setting framework. The Council's General Fund and Housing Revenue Account (HRA) budgets for 2019/20, including the budget proposals of the administration, will be presented to full Council at their meeting on 24 January 2018. The budgets will have first been reviewed by service committees.
- 1.4 This strategy represents the first stage of the budget setting process for 2019/20 and many of the figures involved will be subject to significant review in the coming months before final Council budget approval. They are, however, based upon the most up to date assumptions at the current stage.

2. General Fund Budget Strategy and Medium Term Financial Plan Funding Projections

- 2.1 The upcoming financial year represents the final year of the government's four-year settlement offer accepted by the majority of local authorities within the UK. This settlement primarily covered the level of Revenue Support Grant and the baseline for retained business rates funding. Council Tax and New Homes Bonus Grant did not form part of the four year settlement.
- 2.2 The four-year settlement originally showed a business rates tariff adjustment, known as "Negative RSG", to Stroud of £549k in 2019/20. In July 2018 Central Government consulted on plans to remove this. Although the results of the consultation are not known at this time it is expected that this Negative RSG will now longer be payable in 2019/20, resulting in a one off boost to the MTFP.
- 2.3 The funding position for local authorities for 2020/21 onwards remains uncertain. Central Government is carrying out a "Fair Funding Review" which aims to set out the basis by which funding is allocated across the country between Councils from 2020 onwards. This process will not generally be about redistributing Government grants, as this now forms only a small part of national funding, but about setting the baselines which determine how much local business rates may be retained in each area. These baselines are also due to be reset in 2020.

2.4 It is not possible to make a definitive estimate at this stage of what the impact upon the Council will be as the final funding allocation system has not been determined. It is anticipated that Councils will receive their allocations under the new system in mid 2019. It is likely however that the review will see a general movement in funding from lower to upper tier authorities and it is highly probable that funding for Stroud will reduce. As a minimum this should be expected to be at the level of the previously expected negative RSG, and Business Rates forecasts have therefore been reduced by that amount from 2020/21 onwards in the draft MTFP.

New Homes Bonus

2.5 Changes to the grant in recent years have meant that only housing growth above a baseline percentage has been rewarded. This percentage is currently set at 0.4% but the government has announced its intention to increase that figure, effectively reducing the grant awarded to the Council. The consultation states that this decision will be made when the national picture for number of new properties is known in November. The assumptions in this Strategy have been modelled on a baseline of 0.8% which will be updated when figures are known with certainty.

2.6 The allocation of New Homes Bonus funding is dependent on the final figure of new homes in the district for the last year. The draft MTFP has been prepared on the assumption that the number of new homes delivered will be in line with recent years. More accurate allocations for 2019/20 will be known in time for the final budget setting process and the MTFP will be updated accordingly.

2.7 The funding for New Homes Bonus in 2019/20 is the final year agreed in the 2015 Spending Review. The Government has therefore announced plans to consider how funding after this period will be used to incentivise delivery that meets or exceeds local housing need. A small level of funding has been built into the draft MTFP for the final years of the plan as a prudent estimate. The current estimates of the funding available are shown in the table below.

Table 1 – NHB Forecast 2018/19 to 2022/23

Year of Reward	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)
2013/14	667				
2014/15	933	933			
2015/16	238	238	238		
2016/17	337	337	337	337	
2017/18		75	75	75	75
Future Years			75	150	225
TOTAL NHB	2,174	1,583	725	562	300

Business Rates

- 2.8 The Business rates to be retained by the authority is forecast to grow gradually over the medium term. This is largely as a result of the inflation linked multiplier of Business Rates rather than significant property growth. There is a reduction in funding estimated for 2020/21 which is the possible impact of the fair funding review (see para 2.4). The detailed picture in relation to that review will not be known until during the 2019/20 financial year and will be reported to members when available.
- 2.9 The authority is participating in the Gloucestershire 100% Business Rates Pilot for 2018/19. The exact gain to the authority is not certain at this stage but current estimates suggest it will be a minimum of £500k. This sum is not included in the base budget for expenditure and when known will be placed within a reserve for future decision by Members in relation to its use. It will be possible to use the money to provide long-term savings to the MTFP in a number of ways including invest-to-save projects, funding capital projects previously earmarked for borrowing, and the repayment of existing debt. Options will be presented to members when the final amount is known.
- 2.10 During the summer the Government invited all local authorities to submit bids (with a deadline of September 25th) to form pilot areas for testing of a 75% rates retention scheme for 2019/20, such as is intended to be launched nationally in 2020/21. At its meeting of September 5th the Gloucestershire Economic Growth Joint Committee (GEGJC) gave approval for a Gloucestershire Bid, subject to the recommendation of the cross-County group of S151 Officers. That group met on September 12th to consider all the potential risks and rewards around the pilot bid. In particular the main risk is the impact of lost business rates should NHS Foundation Trusts within the County be successful in their legal case for 80% charitable relief. When bidding for the 100% pilot Government allowed a “no-detriment” clause meaning that authorities effectively would not be worse off as a result of the pilot. This will not be allowed for 75% pilots which leads to the pilot being exposed to additional risk.
- 2.11 It is the belief of that S.151 Group that, even allowing for the potential risks, a 75% retention scheme would bring an overall benefit to Gloucestershire. Therefore, in accordance with the GEGJC decision, a bid has been submitted. As part of the S.151 Officers decision to support the bid, the GEGJC will be asked to reserve a portion of 18/19 gain in a risk reserve. This will offer further protection to Councils against risk in 2019/20.

Council Tax

- 2.12 For 2018/19 the Government allowed Council Tax increases of up to 2.99% for District Councils and this was the increase agreed by Council. The Government is currently consulting on allowing that arrangement to continue for 2019/20. The MTFP therefore currently assumes an increase of 2.99% for 2019/20. This would represent an annual increase of £6.02 (11.5p per week) for a Band D Council Tax payer within the district. There is no certainty over permitted rises after 2019/20 so the MTFP reverts to an assumed annual increase of £5 for a Band D property.

2.13 The summarised level of funding can be seen in the draft MTFP at Appendix A. Appendix B shows the longer term adjustments which are currently assumed in the draft MTFP. These will be reviewed and presented for approval as part of the budget setting process.

3. Budget Assumptions

Pay and Price Inflation

3.1 Budgets relating to spend with external partners, including Ubico, will be subject to inflationary increases. At the time of writing the CPI inflation in the UK is 2.7%. The draft MTFP plans to allow for annual inflationary increases of 2.5% on contract sums. Increases on individual contracts may differ from this percentage based upon their individual circumstances but the overall sum allowed of £200k p.a. is deemed to be sufficient at this stage.

3.2 The local government pay settlement has already agreed a 2% pay increase for staff for 2019/20 so this is included within the plan as a known cost increase. The MTFP currently allows for additional increases in wage levels of 2% p.a. throughout the duration of the plan. This will kept be under review for changes both within local government and the wider public sector.

3.3 Inflation will not be included on budgets which are not related to salaries or contracts. It is anticipated that efficiencies will be used to maintain expenditure within existing budgets. This approach represents a small but significant way that the Council can achieve some real terms savings in expenditure.

Local Government Pension Scheme

3.4 The next actuarial review of the scheme will occur during 2019/20 and set the Council's contribution level. The previous valuation resulted in annual increases of £200k p.a. The level of payment after 2019/20 will be set in the review. To ensure the Council is suitably prepared for the impact of the valuation, at this stage an increase of £200k for each and every year of the plan after 2019/20 has again been included as an estimate of the future budget pressure.

3.5 The Council negotiated a reduced payment for the current three year period in return for paying a lump sum up front during 2017/18. The impact of this on the draft MTFP is a saving of £232k in 2019/20 only. At the point of the next review similar options will again be explored.

Interest Rates & Investment Income

3.6 The Bank of England base rate increased from 0.5% to 0.75% in August 2018. This will have no impact on existing Council Borrowing which is all at fixed rates but may result in some additional investment interest received. No adjustments have been made to the MTFP at this point.

Table 2 – Assumptions included within the Strategy

	2019/20	2020/21	2021/22	2022/23
Band D Council Tax Increase	2.99%	£5	£5	£5
Tax Base Increase	1.50%	1.50%	1.50%	1.50%
Pay Inflation	2%	2%	2%	2%
Contract Inflation	2.50%	2.50%	2.50%	2.50%

Borrowing and Minimum Revenue Provision (MRP)

- 3.7 The General Fund requirement for borrowing to fund past capital works currently stands at £16.622 million. This creates a need for a Minimum Revenue Provision (MRP), a charge to the General Fund to represent a prudent provision for the repayment of borrowing. This was budgeted at £1.291 million in 2018/19. As the capital programme has evolved since the calculation of that budget a reduction of £210k is likely to be possible for 2019/20. The current capital programme, as reported to Strategy and Resources Committee on 24th May 2018, includes £8.588 million of borrowing for General Fund capital purposes. It is therefore proposed to gradually build up the MRP budget to support the Authority's capital programme.
- 3.8 The existing capital programme is primarily funded by grants, the Council's capital reserve and by borrowing. It is expenditure financed by borrowing which creates the need for MRP. The Council will now look to minimise the impact of MRP by using existing resources rather than borrowing where appropriate. This may include in-year revenue funding or use of the capital, or other, reserves. Where borrowing is required the impact of MRP upon the revenue budget will be considered as a fundamental part of the planning for the capital scheme.
- 3.9 The largest element of the current MRP budget is an allowance for repayment of borrowing incurred for vehicles purchased for the Ubico contract in 2016/17. This repayment is scheduled to finish in 2021/22. The draft MTFP currently has no reduction of the MRP budget at that point. This will ensure sufficient revenue funding for further borrowing relating to a rolling program of fleet renewal.
- 3.10 This strategy does not consider the detail of the capital programme which will be included within the full budget report.

Fees & Charges

- 3.11 Previous budgets have mostly recommended that fees and charges are increased by 2% unless they are set by statute. Income budgets have however largely not been increased to reflect these increases. It is now proposed that fees and charges across the Council are reviewed to ensure that where necessary the Council is maximising income receivable and recovering reasonable costs. This in turn serves to partly mitigate the impact of cost inflation. An adjustment has been made to the draft MTFP of £150k additional income in 2019/20 and £50k for each of the next two years to reflect increases in fees and charges budgets.

Longer Term Budget Adjustments

- 3.12 The services provided through the Multi-Service contract with Ubico remain a significant budget pressure for the authority. Significant progress has recently been made in agreeing a revised budget setting and monitoring procedure. This will give the Council the certainty it needs to set and monitor budgets whilst also allowing for a continuing process of efficiencies with Ubico.
- 3.13 Review of the budgeting for the Ubico contract has highlighted the need to include a sufficient inflationary sum within the budget strategy to allow for issues such as staff pay awards and cost inflation. At this stage the draft MTFP allows for the provision of an additional £300k p.a. allowance to catch up for inflation since the start of the contract. After this catch up the overall provision within the budget strategy for contractual inflation will allow for increases in the Ubico sum.
- 3.14 The Work Force Plan Phase 2 is included to allow for savings of £250k in 2019/20 and an additional £100k to be delivered in 2020/21. This is in line with previously agreed budgets. Indicative savings targets of £250k for Phases 3 and 4 of the plan have been included for 2020/21 and 2021/22 respectively. The costs of the plan will be met either from in-year savings or from the Work Force Plan Reserve. Strategy and Resources Committee approved that reserve at a balance of £650k in May 2018. That is deemed to be sufficient at this stage. Members will be advised of the costs of the Work Force Plan through the budget monitoring process.

4. General Fund Medium Term Financial Plan

Use of Reserves

- 4.1 The Council has historically planned to use a General Fund equalisation reserve to bridge the gap between forecast expenditure and funding over the life of the MTFP. As at the end of the 2017/18 year the balance in this reserve was £6.017 million. This strategy currently plans for a continuation of that course in the short term. The General Fund equalisation reserve is used as the final source of funding for each year in the plan with a net budget deficit (2020/21 onwards).
- 4.2 This strategy has allowed Council to set a balanced budget in recent years, and it allows time to consider savings. However, it must now move towards a MTFP where expenditure is only equal to resources available. Savings opportunities to bridge the gap must be identified and implemented. These may include invest to save opportunities and income generation. Reserves currently being utilised to balance the annual budget could be then be invested into capital priorities or further savings opportunities. Additional savings required are forecast to be £841k by 2020/21, an additional £69k in 2021/22 and a further £408k in 2022/23 (see table 3).
- 4.3 The balance of earmarked reserves, available for revenue use, at the end of 2017/18 was £10.24 million, made up of £6.02 million General Fund equalisation reserve and £4.22 million other reserves. This is in addition to the General Fund balance of £2.169 million which this Strategy recommends be held at that level.

- 4.4 It is recommended that reserves be reviewed over the coming months to consider how these can be utilised to both meet the medium term financial challenges and deliver Council priorities.
- 4.5 The table below shows the current forecast of General Fund equalisation Reserve over the life of the draft MTFP.

Table 3 – Forecast level of General Fund equalisation reserve

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Estimated Surplus / (Deficit)	423	(841)	(910)	(1,318)
GF equalisation reserve				
Opening	6,091	6,514	5,673	4,763
Change	423	(841)	(910)	(1,318)
Closing	6,514	5,673	4,763	3,445

5. Housing Revenue Account (HRA)

- 5.1 In common with the General Fund, the Housing Revenue Account (HRA) faces financial pressures over the medium term plan period. HRA balances and reserves at the end of 2017/18 were relatively robust due to much lower levels of revenue and capital expenditure in the financial year (£3.003 million in general reserves, £2.576 million in earmarked reserves).
- 5.2 A review of budgets is underway. The proposed Budget and Rent Setting 2019/20 Report will be presented to Housing Committee in December, followed by Strategy and Resources Committee in January 2019.
- 5.3 Rents for both social and affordable rented dwellings are currently restricted to a 1% rent reduction, with April 2019 starting the final year of the four year rent reduction policy set out in the Welfare Reform and Work Act 2016.
- 5.4 It is not currently anticipated that a deficit will be identified over the MTFP period, and therefore Members may not be presented with a savings plan for 2019/20. However, there are a number of significant risks and uncertainties which should be considered when considering the medium and long term position of the HRA.
- 5.5 The total borrowing incurred for the HRA is £102.749m. All the external debt is at fixed rates and so there will be no fluctuations in interest payments for current borrowing over the medium term. There may be opportunities to re-schedule the debt to take advantage of discounts and this will be kept under review. Of the borrowing, £2.762 million is internally borrowed, utilising HRA balances over the short term. This is likely to rise by £2m in 2018/19 with an external loan being repaid. This will continue to be reviewed as balances reduce, in line with the Treasury Management Strategy.

5.6 The HRA is at the government's debt cap limit, and so under current regulations no further borrowing is permitted. Headroom can be increased, allowing for future borrowing, by making provision to repay existing debt. The opportunity to apply for more borrowing capacity has been announced in 2018, and a bid submitted to MHCLG subject to Council approval.

Draft MTFP 2019/20 to 2022/23

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Budget				
Opening Budget	14,514	14,382	14,376	14,718
<u>Recurring Changes</u>				
Pay Increases	230	205	205	205
Pensions Increases	204	200	200	200
Contract Increases	200	200	200	200
Revised Budget	15,148	14,987	14,981	15,323
Annual Changes (see Appendix B)	(766)	(611)	(263)	(13)
Revised Budget	14,382	14,376	14,718	15,310
Funding				
Council Tax	9,170	9,532	9,903	10,282
Prior year CT surplus	0	0	0	0
Business Rates (incl grants)	3,732	3,258	3,323	3,390
Business Rates Pilot	0	0	0	0
Other Grant	20	20	20	20
New Homes Bonus	1,583	725	562	300
Total Funding	14,505	13,535	13,808	13,992
Surplus / (Deficit) before Reserves Movements	123	(841)	(910)	(1,318)
Reserves Movements				
Use of Waste and Recycling Reserve	(300)			
Estimated Surplus / (Deficit)	423	(841)	(910)	(1,318)
GF equalisation reserve				
Opening	6,091	6,514	5,673	4,763
Change	423	(841)	(910)	(1,318)
Closing	6,514	5,673	4,763	3,445

Annual changes in Draft MTFP

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Pressures				
End of Change Team Saving			100	
Contractual inflation catch up	300			
Drainage Board Levy	7	7	7	7
Total	307	7	107	7
Savings				
Removal of Waste Management Contingency		(50)	(50)	
Removal of General Fund Contingency	(50)			
Littlecombe Units Income	(61)			
Software Contingency		(100)		
Pension Prepayment - One Year Saving	(232)	232		
Car Parks - Existing Charges Only	(50)	(50)	(50)	(50)
Kingshill House	(20)			
MRP	(210)	30	30	30
WFP Phase 2	(250)	(100)		
WFP Phase 3		(250)		
WFP Phase 4			(250)	
Sub Rooms		(230)		
Investments	(50)	(50)		
Income Inflation and Fees and Charges	(150)	(50)	(50)	
Total	(1,073)	(618)	(370)	(20)
Net Changes	(766)	(611)	(263)	(13)