

STROUD DISTRICT COUNCIL
STRATEGY AND RESOURCES COMMITTEE

**AGENDA
ITEM NO**

3 OCTOBER 2019

9

Report Title	BUDGET STRATEGY 2020/21 TO 2023/24
Purpose of Report	To set out the assumptions that will be used when preparing the upcoming Medium Term Financial Plan
Decision(s)	The Committee RECOMMENDS to Council to approve the Budget Strategy 2020/21 to 2023/24 as set out in this report.
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 – Interim Director of Resources (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. Craig Hallett, Solicitor & Deputy Monitoring Officer Tel: 01453 754364 Email: craig.hallett@stroud.gov.uk
Report Author	Andrew Cummings – Interim Director of Resources (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 and budget adjustments.
Performance Management Follow Up	The budget and savings proposals for the Housing Revenue Account and General Fund will be considered by Service Committees in November and December 2019 and Strategy and Resources Committee in January 2020, with Council budget approval meeting in February 2020.
Background Papers/ Appendices	Appendix A – Draft Medium Term Financial Plan 2020/21 to 2023/24 Appendix B – Current assumptions on budget changes Appendix C – Proposed review of reserve balances

1. INTRODUCTION / BACKGROUND

- 1.1 This report set outs the current assumptions on funding available throughout the period 2020/21 to 2023/24, and initial estimates of the level of cost pressures and savings that the Council may expect. 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.
- 1.2 The Council's General Fund and Housing Revenue Account (HRA) budgets for 2020/21, including the budget proposals of the administration, will be presented to full Council at their meeting on 20 February 2020. Proposed budgets will have first been reviewed by service committees.
- 1.3 This strategy represents the first stage of the budget setting process for 2020/21 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 which have been used to prepare a draft Medium Term Financial Plan (MTFP) as shown at Appendix A.
- 1.4 At the time of writing matters relating to Britain's exit from the European Union remain uncertain. As part of the Council's risk assessment around Brexit a number of financial impacts have been considered including increased costs of labour and supplies as well as the possibility of reduced income from taxation or investments. With the current uncertainty no adjustments have been made in the budget strategy for these items.

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

- 2.1 The current financial year represents the final year of the government's four-year settlement offer and the period after, beginning from 2020/21, has been the subject of considerable uncertainty. Council noted this uncertainty when agreeing the current MTFP in January 2019.
- 2.2 The Chancellor of the Exchequer unveiled a one-year Spending Review on September 4th covering spending totals across Central Government. The key areas relating to district Councils were;
 - A reset to the baselines in the business rates retention system expected in 2020 is now deferred to 2021.
 - Baselines for business rates will instead grow by inflation in 2020.
 - The "fair funding review" considering how local government funding is allocated between Councils is deferred to 2021
 - National funding for New Homes Bonus remains in 2020/21.
 - The core level of Council Tax rises assumed is 2%

The uncertainty previously noted therefore remains, although now moves a year later as the fair funding review and business rates resets have both been deferred.

2.3 It is not possible to make a definitive estimate at this stage of what the impact of these reviews will be upon the Council. It is anticipated that there will be a general movement in funding from lower to upper tier authorities and it is highly probable that funding for Stroud will reduce. The MTFP currently assumes the full impact of a baseline reset.

New Homes Bonus

2.4 New Homes Bonus (NHB) has been a declining source of funding for the Council for some years having reduced from £3.2m in 2016/17 to only £1.7m in 2019/20. This reduction is expected to reduce until the point at which the grant is completely eliminated.

2.5 The reason for this is that 2019/20 was the final year in which there is nationally agreed funding for NHB which currently costs the government £918 million a year. The expectation had been that after this year only payments relating to “legacy” growth will be made and no additional NHB will be agreed. NHB rewards housing growth in a particular year by giving an agreed annual amount for the following four years.

2.6 The government has now committed to maintaining a national total of £900m for New Homes Bonus in 2020/21. There has been no announcement as yet as to how this will be distributed. It is possible that an additional years housing growth will be rewarded for 2018/19 and this grant may be paid for four years but there is no clear indication of this at this stage. The tables below show two possibilities for NHB. The Budget Strategy assumes that there will be no additional growth awarded, i.e. the first table.

Table 1 – NHB Forecast 2019/20 to 2023/24 (MTFP assumption)

Year of Reward	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
2014/15	933				
2015/16	238	238			
2016/17	337	337	337		
2017/18	218	218	218	218	
TOTAL NHB	1,726	793	555	218	0

Table 2 – NHB Forecast 2019/20 to 2022/23 (if additional year awarded)

Year of Reward	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
2014/15	933				
2015/16	238	238			
2016/17	337	337	337		
2017/18	218	218	218	218	
2018/19		250	250	250	250
TOTAL NHB	1,726	1,043	805	468	250

Business Rates

- 2.7 The amount of business rates collected by the authority is expected to grow gradually over the next four years. The amount the Council retains in its budget is determined by a baseline set by Central Government. It has long been planned that these baselines would be “reset” in 2020. This would have the affect of stripping growth from authorities which have seen rises in business rates collected in recent years, to redistribute to those authorities which had seen falls. This reset is now expected in 2021 and at the current time is estimated to reduce business rates retained by approximately £1 million p.a.
- 2.8 The deferral of the reforms to the Business Rates system mean that it is highly likely that the Gloucestershire Business Rates Pool will continue to operate in 2020/21. This generates a small additional income to the Council in addition to our core business rates position. As in previous years an income of £100k p.a. is included in the base budget. Should additional funding be generated this will be reported through the Outturn process at the end of the financial year.

Council Tax

- 2.9 For the last two years the Government allowed Council Tax increases of up to 2.99% for District Councils and this was the increase agreed by Council for 2019/20. The MTFP then assumed that districts would return to an annual £5 increase limit for all years after that point.
- 2.10 As referenced earlier in the report the government assumption is now of an increase of just 2%. Informally the Council’s funding advisors have suggested that a £5 limit for District Councils is again likely (approximately 2.4% for Stroud) and therefore the MTFP continues with this assumption. In line with previous years an annual growth in tax base of 1.5% is assumed at this stage. The actual tax base growth will be incorporated in the final budget report.

3. Budget Assumptions

Pay and Price Inflation

- 3.1 Inflation linked increases will be added to budgets for spend with external partners. At the time of writing the CPI inflation rate in the UK is 1.7%. The Budget Strategy and Draft MTFP currently plans to allow for annual inflationary increases of 2% on contract sums but this will be updated to reflect the September CPI during the budget setting process.
- 3.2 At this point there is no agreement on a local government pay award after 2019/20. In June 2019 the government announced that there will be pay increases of above inflation for many public sector workers including police officers at 2.5% and teachers at 2.75%. Decisions on local government pay are made separately but these other awards are seen as an indication that the award is likely to be above 2%. At this stage an award of 2.5% is estimated for the purposes of the budget strategy. An update will be included in the budget setting report but it is likely that the final position will still not be known at that stage.
- 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 In previous years the MTFP has assumed an annual increase in pension contributions in line with the requirements of the fund actuary. This position is re-evaluated every three years and 2020/21 is the first year of the new valuation period. The actuaries have indicated that as a result of the funding level of our pension scheme no increase will be required during the course of the next MTFP and the annual increase is therefore removed. The previous increase in the MTFP was £150k p.a. so over a four year MTFP this amounts to a £600k p.a. saving.
- 3.5 In the three year period ending in 2019/20 the Council has benefited from reduced contributions as a result of paying some of its contributions up front in a lump sum. The saving ends in 2020/21 with the new valuation period. However, officers are exploring the possibility of following the same lump sum payment option and therefore at this point the MTFP remains based on the reduced sum. This position will be updated before Council in February 2019.

Interest Rates & Investment Income

- 3.6 There have been no changes to the Bank of England base rate since the increase to 0.75% in August 2018.
- 3.7 In February 2019 the Council approved a new investment strategy permitting investments in a wider variety of funds. A cross party member working group has been putting together a fund selection process working with the S151 Officer and

our external treasury advisors. Investment decisions are likely to be made in October. Having considered likely yields from those investments, annual increases in investment income of £150k are included for each year of the MTFP.

Table 3 – Assumptions included within the Strategy

	2020/21	2021/22	2022/23	2023/24
Band D Council Tax Increase	£5	£5	£5	£5
Tax Base Increase	1.50%	1.50%	1.50%	1.50%
Contract Inflation	2%	2%	2%	2%
Pay Inflation	2.50%	2.50%	2.50%	2.50%

Borrowing and Minimum Revenue Provision (MRP)

- 3.8 The General Fund requirement for borrowing to fund past capital works currently stands at £15.726 million (decreased from 16.622 million the year before) This creates a need for a Minimum Revenue Provision (MRP) to repay that borrowing. This was budgeted at £981k million in 2019/20. The current capital programme, as reported to Strategy and Resources Committee on 13th June 2019, includes £11.163 million of borrowing for General Fund capital purposes, with the largest uses being the Canal, Brimscombe Port and Ubico Fleet vehicles.
- 3.9 The expected MRP over the life of the MTFP and capital programme will be reviewed during the budget setting process. Where possible the capital reserve will be used instead of borrowing to limit MRP exposure. At this stage it is considered that the current annual MRP budget is sufficient at the current time with a potential increase of £100k built into the later years of the plan.
- 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 The Council has previously adopted a piecemeal approach to budgeting for fees and charges. In many cases they have been considered on an individual basis. The new budget strategy mandates that all income budgets relating to fees and charges will rise by 2.5% unless charges are set by statute or if increasing charges would lead to an excessive surplus. The primary driver of Council costs is salaries and therefore it is reasonable to link fee increases with assumed increases in salary costs of 2.5%. This increase is currently anticipated to yield an extra £50k per year which is included in the Draft MTFP.
- 3.12 There is not currently in place either a comprehensive list of Council fees and charges or an overall charging policy. These issues need to be addressed if the Council is going to develop a more commercial approach to funding its services. For the 2020/21 budget, lists of fees and charges will be presented to service committees and an overall fees and charges policy will be included in the budget papers in February 2020. The policy will include the rationale for setting and

approving Council charges as well as any policies around discounts and exemptions.

Longer Term Budget Adjustments

- 3.13 The following paragraphs set out those items in the draft MTFP which represent significant changes from the previous MTFP agreed by the Council. Details of budget adjustments are shown at Appendix B.
- 3.14 The significant change for the current year's budget was to work in partnership with Ubico to produce a balanced budget for that contract. At the time of writing this can be deemed a success. The External Auditors are now satisfied with the Value for Money arrangements and the contract is currently expected to be underspent in 2020/21. Therefore at this time no further adjustment, save for that included within the contractual inflation allowance is required.
- 3.15 The Work Force Plan previously being followed by the authority had a further savings target to be achieved of £500k. This has been partially covered by releasing £120k of pension savings, previously held in reserve, resulting from previous staff changes. The remaining balance of the target is achieved by the removal of the £150k p.a. annual pension increase.
- 3.16 The WFP is not continuing with its target of reducing 20% of the workforce. When the new Senior Leadership Team is in place Council structures will be considered, taking into account Council objectives as well as the revenue budget position.
- 3.17 The report to Strategy and Resources Committee setting out the new Senior Management structure included an estimated cost of £45k. This will be split between the General Fund and the HRA with the current GF impact currently being estimated at £30k.
- 3.18 The Council has been aware in recent years of a risk relating to the income stream from Gloucestershire County Council incentivising food waste collections. This source of funding was worth £380k to SDC in 2018/19. Formal notice has now been received that the incentive payment arrangements will change for the 2020/21 year. The final scheme details are not known at the time of writing but a reduction in funding of £200k p.a. is currently anticipated and has been built into the draft MTFP.
- 3.19 In January 2019 Council agreed a one off budget of £60k in 2019/20 for scoping works around the Council's commitment to making the District carbon neutral by 2030. This funding has been partly used to recruit a Carbon Neutral Officer to co-ordinate the multiple work streams of this project. This budget strategy turns the one off budget into a recurring annual sum, effectively increasing the investment in carbon neutrality by a minimum of £240k over the four year MTFP.

4. General Fund Medium Term Financial Plan Use of Reserves

- 4.1 The Council continues to use a strategy of using the “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 2018/19 year the balance in this reserve was £6.09 million. This strategy allows the Council time to deliver budget savings and also protects the General Fund Balance, and levels of Council services, during fluctuations in funding levels. The deferral of the government reviews, covered earlier in this strategy, support this continued approach.
- 4.2 Where the Council has specific reserves which have been established to cover risks these will be released into general balances over the life of the MTFP where appropriate. This strategy identifies two reserves where this approach is used. The “Business Rates Safety Net” reserve has been established to soften the impact of the baseline reset. In accordance with this purpose this reserve is released in the years after the baseline reset in 2021. The “Waste and Recycling” Reserve will be used to fund the costs of new collection rounds due to property growth and to mitigate the impact of the reduction in the food waste incentive payments.
- 4.3 The balance of General Fund earmarked reserves, excluding the capital reserve, at the end of 2018/19 was £12.53 million, including the £6.09 million General Fund equalisation reserve. This is in addition to the General Fund balance of £2.169 million which this Strategy recommends be held at that level.
- 4.4 As part of producing this Strategy the allocation of reserves has been reviewed by the S151 Officer, the Senior Leadership Team and Alliance Members at a budget workshop. The revised plans for use of reserves are shown at Appendix C.
- 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

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Estimated Surplus / (Deficit)	141	(397)	(809)	(1,249)
GF equalisation reserve				
Opening	6,722	6,863	6,466	5,657
Change	141	(397)	(809)	(1,249)
Closing	6,863	6,466	5,657	4,408

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 2018/19 were relatively robust at £3.386 million in general reserves and £4.094 million in earmarked reserves.

- 5.2 The proposed Budget and Rent Setting 2020/21 Report will be presented to Housing Committee in December, followed by Strategy and Resources Committee in January 2020.
- 5.3 It is not currently anticipated that a deficit will be identified over the MTFP period, and therefore Members are unlikely to be presented with a savings plan for 2020/21. However, there are a number of significant risks and uncertainties which should be considered when allocating resources across the medium and long term position of the HRA.
- 5.4 For example, the Carbon Neutral 2030 commitment will have a significant impact on both major works needed on existing stock and the build costs for new build housing. This additional cost may not be fully known for this budget setting round.
- 5.5 2020/21 is the first year of permissible rent increases following the four year rent reduction set out in the Welfare Reform and Work Act 2016. Based on national rent guidance, rents are assumed to increase by CPI+1% for five years.
- 5.6 The total borrowing incurred for the HRA is £103.274m incl Littlecombe depot at 525k. As the debt cap has been removed, the HRA's new build programme has been extended over the MTFP period, utilising this power to increase borrowing.
- 5.7 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 lower rates and this will be kept under review. Of the borrowing, £5.287 million is internally borrowed, utilising HRA balances over the short term. This will continue to be reviewed as balances reduce, in line with the Treasury Management Strategy.
- 5.8 The HRA MTFP includes an annual contribution towards repaying borrowing. This base amount will increase by inflation each year, with additional amounts added to reflect any new borrowing for the new build programme.