



**REPORT of  
INTERIM SECTION 151 OFFICER**

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**to  
STRATEGY AND RESOURCES COMMITTEE  
29 JANUARY 2020**

**REVISED 2019 / 20 ESTIMATES, ORIGINAL 2020 / 21 BUDGET ESTIMATES AND  
COUNCIL TAX 2020 / 21**

**1. PURPOSE OF THE REPORT**

- 1.1 To note the Provisional Local Government Finance Settlement 2020 / 21 which was announced by the government on 20 December 2019.
- 1.2 To present to the Committee the revised 2019 / 20 and original 2020 / 21 General Fund Revenue Budget estimates for approval and recommendation to the Council on 13 February 2020.
- 1.3 To present the options for proposed level of Council Tax increase for 2020 / 21 for recommendation to the Council on 13 February 2020.
- 1.4 To present for approval and recommendation to the Council on 13 February 2020 the policy on use of reserves.

**2. RECOMMENDATIONS**

- (i) that the Committee notes the main details of the Provisional Local Government Finance Settlement 2020 / 21 described in section 3.4 of the report;

To the Council:

- (ii) that the following be approved:
  - (a) the Revised 2019/20 and Original 2020/21 General Fund Revenue Budget Estimates (**APPENDICES 1, 2 and 3**)
  - (b) an average Band D council tax of £202.40 (excluding parish precepts) (£5 increase) for 2020/21 (**APPENDIX 1**);
  - (c) policies on the designated use of financial reserves (**APPENDIX 4**);
  - (d) maintain the current policy of a minimum general fund balance of £2,600,000;

- (iii) that the Council gives due regard to the Interim Section 151 Officer’s statement on the robustness of budgets and adequacy of reserves in **APPENDIX 5**.

### 3. SUMMARY OF KEY ISSUES

- 3.1 The Council no longer receives revenue support grant funding from the government meaning that the majority of the funding for the council’s services is from income raised directly by the Authority. The main sources of funding are Council Tax, Fees and Charges and Business Rates.
- 3.2 The requirement to set a balanced budget has required stringent processes to deliver efficiencies, preserve as far as possible front line services, retain the ability to generate income and to recognise the increasing demand for services.
- 3.3 It should be noted, that at the time of writing this report, the National Non-Domestic Rates Return for 2020/21 was not completed and therefore, the funding figures from Business Rates are likely to change, which will affect the contributions to/(from) balances as shown in **APPENDIX 1**.
- 3.4 **Provisional Local Government Finance Settlement 2020/21**
- 3.4.1 The provisional 2020/21 local government finance settlement was announced on 20 December 2019. The Settlement Funding Assessment is the amount of funding consisting the 50% of the Business Rates Baseline Funding Level uprated by the increase in the small business rates multiplier that is identified by the government under the current system of 50% Business Rates Retention Scheme and adjusted for the tariff that the authority pays.

|  | 2016/17      | 2017/18      | 2018/19      | 2019/20      | 2020/21      |
|--|--------------|--------------|--------------|--------------|--------------|
|  | £m           | £m           | £m           | £m           | £m           |
| <b>Settlement Funding Assessment – Maldon</b>                            | <b>1.964</b> | <b>1.601</b> | <b>1.474</b> | <b>1.508</b> | <b>1.532</b> |
| of which:  |              |              |              |              |              |
| Revenue Support Grant  | 0.561        | 0.169        | 0            | 0            | 0            |
| Business Rates Baseline Funding under 50% Business Rates Retention (BRR) | 1.403        | 1.432        | 1.474        | 1.508        | 1.532        |
| Annual % Change  |              | -18.5%       | -7.9%        | 2.3%         | 1.6%         |
| Cumulative % Change  |              | -18.5%       | -25.0%       | -23.2%       | -22.0%       |

- 3.4.2 The Government each year also calculates an amount called the ‘Core Spending Power’ for each local authority which is an estimate of the amount of funding available to each authority to spend on their core services. It is made up of estimated council tax and business rate income, Revenue Support Grant and New Homes Bonus plus a number of government grants excluding those for education and policing.

| Maldon  |                 |                 |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Illustrative Core Spending Power of Local Government;                                       |                 |                 |                 |                 |                 |                 |
|   | 2015-16         | 2016-17         | 2017-18         | 2018-19         | 2019-20         | 2020-21         |
|   | £ millions      | £ millions      | £ millions      | £ millions      | £ millions      | £ millions      |
| Settlement Funding Assessment   | 2.447250        | 1.963948        | 1.600563        | 1.474135        | 1.507917        | 1.532486        |
| Compensation for under-indexing the business rates multiplier                               | 0.020284        | 0.020284        | 0.021498        | 0.033782        | 0.049138        | 0.061422        |
| Council Tax of which;   | 4.121717        | 4.277616        | 4.472278        | 4.668562        | 4.843426        | 5.044735        |
| <i>Council Tax Requirement excluding parish precepts (including base and levels growth)</i> | 4.121717        | 4.277616        | 4.439994        | 4.634860        | 4.808462        | 4.982286        |
| <i>additional revenue from referendum principle for social care</i>                         | 0.000000        | 0.000000        | 0.000000        | 0.000000        | 0.000000        | 0.000000        |
| <i>potential additional Council Tax from £5 referendum principle for all Districts</i>      | 0.000000        | 0.000000        | 0.032285        | 0.033702        | 0.034964        | 0.062449        |
| Improved Better Care Fund   | 0.000000        | 0.000000        | 0.000000        | 0.000000        | 0.000000        | 0.000000        |
| New Homes Bonus   | 0.632883        | 0.795664        | 0.797068        | 0.695801        | 0.832435        | 0.897533        |
| New Homes Bonus returned funding  | 0.004470        | 0.003197        | 0.003390        | 0.000000        | 0.000000        | 0.000000        |
| Rural Services Delivery Grant   | 0.005897        | 0.030627        | 0.024730        | 0.030818        | 0.030818        | 0.030818        |
| Transition Grant  | 0.000000        | 0.040226        | 0.040077        | 0.000000        | 0.000000        | 0.000000        |
| Adult Social Care Support Grant   | 0.000000        | 0.000000        | 0.000000        | 0.000000        | 0.000000        | 0.000000        |
| Winter Pressures Grant <sup>1</sup>   | 0.000000        | 0.000000        | 0.000000        | 0.000000        | 0.000000        | 0.000000        |
| Social Care Support Grant <sup>2</sup>  | 0.000000        | 0.000000        | 0.000000        | 0.000000        | 0.000000        | 0.000000        |
| Social Care Grant   | 0.000000        | 0.000000        | 0.000000        | 0.000000        | 0.000000        | 0.000000        |
| <b>Core Spending Power</b>  | <b>7.232501</b> | <b>7.131562</b> | <b>6.959604</b> | <b>6.903097</b> | <b>7.263734</b> | <b>7.566993</b> |
| Change since 2015-16 (£ millions)   |                 |                 |                 |                 |                 | 0.334492        |
| Change since 2015-16 (% change)   |                 |                 |                 |                 |                 | 4.62            |

Source: Provisional Local Government Finance Settlement 2020 to 2021 published by MHCLG 20/12/2019

- 3.4.3 It will be seen from the above illustrative table that in the government's view the total Core Spending Power includes the potential additional council tax from the £5 referendum principle for all Districts. The Council did increase its Council Tax by £5 in 2017 / 18, the first year that the government introduced the £5 into the referendum principle in acceptance and recognition of the financial pressures that district councils have been experiencing.

| Key Information for Local Authorities (£m)   |         |                      |                      |                      |                      |
|--|---------|----------------------|----------------------|----------------------|----------------------|
| Select local authority by clicking on the box below and using the drop-down button |         |                      |                      |                      |                      |
| Maldon   |         |                      |                      |                      |                      |
|  | 2016-17 | 2017-18 <sup>1</sup> | 2018-19 <sup>1</sup> | 2019-20 <sup>1</sup> | 2020-21 <sup>1</sup> |
| Settlement Funding Assessment  | 1.96    | 1.60                 | 1.47                 | 1.51                 | 1.532486             |
| of which:  |         |                      |                      |                      |                      |
| Revenue Support Grant  | 0.56    | 0.17                 | 0.00                 | 0.00                 | 0.000000             |
| Baseline Funding Level   | 1.40    | 1.43                 | 1.47                 | 1.51                 | 1.532486             |
| Tariff/Top-Up <sup>2</sup>   | -3.85   | -3.59                | -3.72                | -3.80                | -3.866533            |
| 2017-18 Tariff and Top-up reconciliation   |         |                      | -0.02                |                      |                      |
| Safety Net Threshold   | 1.30    | 1.32                 | 1.36                 | 1.39                 | 1.417549             |
| Levy Rate  | 0.50    | 0.50                 | 0.50                 | 0.50                 | 0.500000             |

Source: Provisional Local Government Finance Settlement 2020 to 2021 published by MHCLG 20/12/2019

- 3.4.4 For 2020 / 21, government funding consists of the Business Rates Baseline funding, New Homes Bonus and the Rural Services Delivery Grant. Revenue Support Grant (RSG) is negative and the government, like for the current financial year (2019 / 20), has stated that it will meet the cost of the negative RSG in 2020 / 21 from its own share of the Business Rates receipts and not require authorities with negative RSG's to pay it to the government. The amount for this Council for 2020 / 21 is approximately £338,700. It is uncertain whether the government will continue to fund the negative RSG in the future and if not, then the Council will have this as cost to pay to the government.
- 3.4.5 The New Homes Bonus (NHB) Scheme was introduced in 2011 / 12 to encourage local authorities to facilitate housing growth. For every additional property built or empty property brought back into use, the government match funds the additional council tax, with an additional amount for affordable homes.
- 3.4.6 Whilst there have been changes to the scheme over the years whereby the payments have reduced from six years to five years to four years and the introduction of an annual baseline housing growth of 0.4% below which no NHB would be payable, for

2020 / 21 the government has indicated that NHB will continue but there will be no legacy payments in the future for the year 2020 / 21.

3.4.7 For 2020 / 21 the government will maintained the Rural Services Delivery Grant at £81million and the Council's allocation is £30,818 the same as for this financial year (2019 / 20).

3.4.8 Finally, the Council's allocation for the provisional Homelessness Prevention Grant for 2020 / 21 is £64,288. This is in addition to the 2020 / 21 allocations separately announced for the Flexible Housing Grant of £62,853 and the Homelessness Reduction Grant of £49,501. Therefore, the provisional total amount to be received for the Homelessness function / service is £176,642 to be spent in accordance with the terms and conditions of the individual grants in 2020 / 21.

### **3.5 Revised General Fund Revenue Budget Estimates 2019 / 20**

3.5.1 The original 2019 / 20 budget estimates showed a total of £291,000 contribution to the General Fund Balances. The revised estimate shows a contribution of £35,000. This is a reduction of £256,000. The reasons for this in the main come from the differences in the Statutory Adjustments between the original and the revised estimates. Also, as explained in the Quarter Two Budget Control Report considered by the Committee on 5 December 2019, the additional cost of the Agency Staff not covered by the salary budget allocations and higher than expected cost of redundancies in 2019 / 20 in respect of the implementation of the Future Council model are being absorbed by the savings in the salaries budget which would otherwise have been contributing to the overall savings.

3.5.2 In addition, out of a total savings and additional income of £331,000 identified as part of the Transformation Programme in 2019 / 20; £123,200 remains to be achieved. A total of £207,800 (63%) savings and additional income has been included in the revised estimate. The reason for the amount that remains to be achieved is that phase 2 of the Transformation Programme was completed as per the plan in October 2019 and therefore the focus was directed to ensure that the new Council structure was implemented on schedule. Some of the savings and additional income are to be achieved by officers who did not take up their new roles in October 2019. Therefore, the £123,200 has been rolled forward to be achieved in 2020 / 21.

3.5.3 The Council continues to receive additional income from growth in local business rates and pooling arrangements within the Essex Region Business Rates Pool. For 2018 / 19, the Authority's benefit from being in the pool was £199,000.

3.5.4 There have been Revenue Supplementary Estimates of £21,100 agreed during the year; these have been built into the core budget.

### **3.6 Original General Fund Revenue Budget Estimates 2020 / 21**

3.6.1 The proposed 2020 / 21 net operating expenditure budget after adjusting for statutory adjustments, but before any non-service specific funding and use of reserves totals £7.991m and is therefore £0.107m (1.36%) higher than 2019 / 20 (£7.884m). Whilst the overall Net Cost of Services has decreased as a result of the implementation of the Future Council model there are additional growth pressures such as an increase for

inflation of £385,000, this is a 2% increase on pay budgets, and 2.0% and 3.0% for Retail Price Index (RPI) and Consumer Price Index (CPI) indexed expenditure; employer's contribution rate to the pension fund increase from 15.9% to 19.9% of pensionable pay adding an extra £221,000 and other significant items which are explained later in this report that are being absorbed/mitigated by the savings.

- 3.6.2 It needs to be recognised that since the decision to implement the Future Council model, the environment that the Council operates in has and will continue to change and move on. As such the savings that were projected from the Future Model implementation whilst being largely achieved will be diluted or eroded in the future as additional cost pressures are being accommodated without continually replenishing those savings with new savings. The measure for the savings of £1.89m by 2022 / 23 from the Future Council Model is the 2018 / 19 budget however the activities of the Council will not remain static at that level.
- 3.6.3 It is estimated that in 2020 / 21, there will be a net contribution from General Fund balances of £961,846 to fund the following:
- the up-front payment of £1,556,202 for the pension fund deficit recovery from the 2019 triennial pension fund valuation;
  - additional provision in the budget for the waste management contract of £100,000 to deal with the lack of capacity in the garden waste service and the waiting list of householders wishing to subscribe to the service and the collection of glass
  - additional budget provision of £100,000 for interim support to cover the Director of Resources / Section 151 post.
- 3.6.4 Taking the above into account, it will be noted that the actual contribution from general fund balances of £962,346 means that the difference of £793,856 has been absorbed from within the General Fund Revenue account in the main from the reduction in the overall net cost of service as a result of the implementation of the Future Council model and additional income from factored in increases when compared to the original 2019 / 20 original budget.
- 3.6.5 The Council Tax increase is considered in section 3.15. Proposals for the usage of earmarked reserves are discussed in more detail in Section 3.16.
- 3.6.6 2020 / 21 Budgets have initially been built up as follows:
- New Council Structure;
  - Inflation assumptions on existing contracts, (2% for pay), contractual inflation on goods and services based upon CPI or RPI dependent of terms within contracts;
  - Reflecting the expected income from fees and charges and grant income;
  - Implications of statutory and contractual changes;
  - Growth, as discussed later in this report.
  - Savings as identified for the Future Model (see paragraph 3.9.1)

### **3.7 Budget Growth, Savings and Income Generation in 2020/21**

- 3.7.1 On 5 December 2019, the Committee considered a report on the budget growth and savings for 2020 / 21. These proposals have all been built into the core 2020 / 21 budget estimates at £145,600 for growth; £234,700 of savings / additional income.
- 3.7.2 Furthermore, the Committee agreed non-recurring growth in 2020 / 21 in relation to repairs and renewals of Council assets which would not form part of the capital programme totalling £26,100 and which will be funded from a draw down from the Repairs and Renewals reserve.
- 3.7.3 Following a meeting of Finance Lead members from across Essex which was hosted by the Finance Cabinet Member at Essex County Council, it has been agreed that Local Council Tax Sharing Agreement will continue at least for the next two years at the 14p benefit but only on achieving agreed additional council tax collection targets. The Chairman of this Committee attended on the Council's behalf with an Officer. The benefit will be tapered depending on the achievement below target to 12p. Each participating Council will have a target and there will also be a collective target to reduce the risk to any one participant authority. The loss from the 16p benefit to 14p over the two years 2018 / 19 and 2019 / 20 this was a cumulative loss of £70,000. For 2020/21 the Council has budgeted the benefit at £207,000.

### **3.8 New Homes Bonus (NHB)**

- 3.8.1 NHB is not ring-fenced; therefore it can be used by the Council for whatever purpose it wishes. The government has stated that the NHB scheme in its current form will cease and 2020 / 21 will be the last year, as it wants to incentivise and reward local authorities to increase housing growth in a different way. Due to the uncertainty on the future of the NHB, the Council in 2018 / 19 took action to stop its reliance on the whole of the annual NHB allocation to support the General Fund Revenue expenditure and thus the council tax by using just the legacy payments from previous years. The plan was to phase out wholly any reliance on the NHB to support the council tax. Legacy payments are payable for four years; therefore the income will progressively reduce to zero by 2023 / 24. The amount in 2020 / 21 to support the general fund revenue expenditure is £251,512 (£414,293 in 2019 / 20). The amounts not utilised to support the General Fund revenue expenditure is to be held in a New Homes Bonus Reserve.

### **3.9 Future Council Model**

- 3.9.1 The Future Council model identified £739,000 of savings in 2020 / 21. This is made up of salary savings of £400,000 through the new staffing structure and in total £339,000 through non-staff efficiencies, strategy based reductions and new net revenue streams from commercial projects/activities. At its meeting on 5 December 2019, the Committee resolved to reverse the saving identified from the Citizen's Advice Bureau (CAB) of £11,000 effectively reducing the savings target by £328,000. For 2020 / 21 a total of £329,100 has been found and incorporated into the budget. The balance of £123,200 of savings to be achieved in 2019 / 20 and the net of the reversal of the saving from the CAB of £9,900 to be achieved; a total of £133,100 has been included in the 2020 / 21 budget estimates as a central saving to be achieved.

### 3.10 Pension Fund Deficit Recovery

3.10.1 The Pension Fund Triennial Valuation 2019 is currently under way and the draft results show that the deficit on the Council's element of the overall Fund in respect of assets and liabilities has reduced from £8.181m to £5.318m with the funding level improving from 81.7% to 90.2%. The deficit recovery period is proposed to be reduced 15 years to 12 years. The primary employer's contribution rate will increase from 15.9% to 19.9% of pensionable pay. The comparable option is Option 5 as the Council chose to pay the deficit in the 2016 valuation up front. The Council has adequate general fund balance / reserves to take Option 5. In using the General Fund Reserves / Balance, it is proposed that £480,000 in each of the year's 2021 / 22 and 2022 / 23 be transferred to the Pension Reserve in the earmarked reserves in readiness for the next Triennial Valuation in 2022 / 23 to mitigate the impact of the deficit recovery payment at the time.

| Deficit Funding Options   | 2020 / 21 | 2021 / 22 | 2022 / 23 | Total     | Ranking                           |
|---|-----------|-----------|-----------|-----------|-----------------------------------|
|   | £         | £         | £         | £         | Least Expensive to Most Expensive |
| Option 1: Deficit contributions paid monthly and increasing each year             | 534,677   | 554,170   | 574,373   | 1,663,220 | 3                                 |
| Option 2: Deficit contributions paid monthly and are level each year              | 643,854   | 643,854   | 643,854   | 1,931,562 | 5                                 |
| Option 3: Deficit contributions paid annually in advance and increasing each year | 523,024   | 542,093   | 561,856   | 1,626,973 | 2                                 |
| Option 4: Deficit contributions paid annually in advance and are level each year  | 629,823   | 629,823   | 629,823   | 1,889,469 | 4                                 |
| Option 5: Three year's deficit contributions paid up front on 1 April 2020.       | 1,556,202 | 0         | 0         | 1,556,202 | 1                                 |

### 3.11 Funding for work on Bradwell B (BRB) Power Station and Community Infrastructure Levy (CIL)

3.11.1 The Council is engaged in the work with the BRB Partnership in respect of the Development Consent Order. In order to be so engaged BRB has funded the Council in 2019 / 20 and will do so for the first three months of 2020 / 21. The total amount up to end of December 2019 was £55,000. The amount of funding for the first six months of 2020 is £271,000 being split equally between 2019 / 20 and 2020 / 21. The Council's involvement in the BRB project therefore will be at nil net cost to it up to

June 2020. Any funding allocation not utilised will be carried forward for this purpose.

3.11.2 The Council has been granted £180,000 by Essex County Council to progress work on CIL. The finer detail of the how the CIL work will be delivered is under discussion. The work on CIL will be contained within the funding with no net cost to the Council.

3.11.3 Therefore, no net costs have been included in either the revised 2019 / 20 or original 2020 / 21 budget estimates.

### 3.12 **Essex Region Business Rates Pool**

3.12.1 As agreed by the Council in October 2015, the Council joined the Essex Region Business Rates Pool in April 2016. The Pool will continue to operate in 2020 / 21 and the Council will continue to benefit by being in the Pool.

### 3.13 **Interest on Investments**

3.13.1 Interest from investment income is an integral part of the budget considerations. Bank of England base rate increased in March 2018 to 0.75%. The 2020 / 21 budget estimate for investment interest income in 2020 / 21 is £283,000 at an average investment balance of £15m during the year at a rate of 1.9%

### 3.14 **Council Tax**

3.14.1 The Council Tax referendum threshold set by the Secretary of State for 2020 / 21 was announced as part of the Provisional Settlement; and for Maldon, the threshold has been set at 2% increase over 2019 / 20 or £5 whichever is the greater. Any Council proposing increases more than the threshold faces the substantial cost of conducting a local referendum and if it results in a ‘No’ vote, the rebilling cost as well.

3.14.2 In view of the fact that the Government in calculating the core spending power for each council assumes they will have taken the benefit of the £5 increase (see table in paragraph 3.4.2) it is important that the Council considers the option of the £5 increase for 2020 / 21.

| <b>Options for Increase in Council Tax from 2019 / 20 to 2020 / 21</b> | <b>Increase on 2019 / 20 Band D Council Tax of £197.40</b> |            | <b>Additional Income Band D</b> |
|--|--|------------|---------------------------------|
| Tax Base = 25,090.8  | Medium Term Financial Strategy (MTFS) 1.945% £3.84         | £5         |                                 |
| Band D Council Tax 2020 / 21   | £201.24  | £202.40    | £1.16                           |
| Maldon District Council: Council Tax                                   | £5,049,273   | £5,078,378 | £29,105                         |

3.14.3 Increasing the council tax by £5 instead of the increase factored into the current MTFS of 1.95% (£3.84) would raise an additional income of £29,105 in 2020 / 21 thus reducing the requirement from General Fund Balances by that amount to support the General Fund net expenditure.



- 3.14.4 The additional increase from a 1.945% (£3.84) increase to £5 is £1.16 which equates to 2 pence per week.
- 3.14.5 The Council's net expenditure budget (excluding parish precepts but after service specific funding and contribution from reserves) for 2020 / 21 is £8,161,699. This is matched by the estimated total resources with the Band D council tax at £202.40 i.e. £5 increase on 2019/20. (**APPENDIX 1**).
- 3.14.6 The tax base to be used for setting the 2020 / 21 Council Tax was agreed by the Council at its meeting on 19 December 2019. The tax base is 25,090.8 "Band D equivalent" properties, after allowing for a non-collection rate of 1.7%. This tax base is now fixed for the purposes of setting the 2020 / 21 Council Tax.
- 3.14.7 In terms of the estimated (surplus) / deficit on the Collection Fund as at 31 March 2020, Maldon District Council's share of the net surplus, which is used to reduce our Council Tax, is £35,897 comprised of a surplus distribution on Council Tax of £174,733 and a deficit distribution on Business Rates of £138,836.
- 3.14.8 In accordance with the legislation under the Local Government Finance Act 1992, all parish precepts must be charged to the Council's General Fund. At the time of writing this report not all parish precepts had been received. It is envisaged that all the parish precepts will be reported at the Council meeting on 13 February 2020 for Council Tax setting purposes.

### 3.15 **Council Tax £5 increase on 2019/20 Band D Basic amount of £197.40**

- 3.15.1 The Budget estimates have been constructed on the basis that the Council is proposing to increase council tax by £5.00 which is within the referendum threshold for 2020 / 21. This represents a prudent approach having regard to the balance of the risks and opportunities facing the Council in future years; in the context of its underlying financial base with subsequent increases to be reviewed each year in the light of emerging risks. The budget for 2020 / 21 is balanced. There are several uncertainties still facing local government finance. There is the £339,000 negative Revenue Support Grant that is that the government is meeting the cost of from its own business rates receipts again in 2020 / 21. There is uncertainty as to whether the government will require council's that are in negative revenue support grant to pay it to the government in the future. The four-year settlement funding agreement also ended 2019 / 20, therefore any new funding arrangement will impact on the Council and whilst it is anticipated that the impact will not be favourable, there is not yet any indication of what this may be. The move from the 50% Business Rates Retention to 75% Business Rates Retention system is on hold and it is not known when or whether it will be implemented. Any change to the Business Rates retention system will, most likely result in a reset of the Business Rates Baseline, which it is expected will remove the growth that has been achieved since the system was introduced. This would most certainly take away resources from this Council. However, it is not possible to predict what the exact impact would be without knowing the details of the new system.
- 3.15.2 Council Tax increases become part of the overall financial base of the Council. The proposed £5 increase in Council Tax will generate an additional £125,454 of income

in 2020/21. If this increase were not approved for 2020 / 21 then the gap in future years widens and any necessary Council Tax increase would then be greater.

### 3.16 General Fund Balance and Revenue Reserves

3.16.1 Detailed policy information for each earmarked revenue reserve and anticipated balances is set out in **APPENDIX 4**.

3.16.2 Based on the latest risk assessment it is considered that the Council maintains the approved minimum working balance level from £2.6m this will be regularly reviewed in the light of changing circumstances.

3.16.3 A summary of the proposed use of reserves is summarised in the table below and is based on a budget projection that includes aspects such as inflation and a number of priority and statutory growth pressures offset by savings identified. The overall aim is to ensure that reserves do not fall below £2.6m and the current projections keep within this target.

| <b>Balances Movement (taking into account estimated use in 2019/20)</b> | <b>2019 / 20</b> | <b>2020 / 21</b> |
|---|------------------|------------------|
|   | <b>£'000</b>     | <b>£'000</b>     |
| Balance brought forward   |                  |                  |
| General Fund Reserves   | 4,769            | 4,804            |
| Earmarked Reserves  | 2,559            | 2,735            |
| <b>Total</b>  | <b>7,328</b>     | <b>7,539</b>     |
| Projected Movement  |                  |                  |
| General Fund Reserves   | 35               | -962             |
| Earmarked Reserves  | 176              | 504              |
| <b>Total</b>  | <b>211</b>       | <b>-458</b>      |
| Balance carried forward   |                  |                  |
| General Fund Reserves   | 4,804            | 3,842            |
| Earmarked Reserves  | 2,735            | 3,239            |
| <b>Total</b>  | <b>7,539</b>     | <b>7,081</b>     |

3.16.4 In respect of the NHB the reserve created from the balance of payments received and the legacy payments yet to be received that will not be utilised, the position will be as follows:

|                  | <b>B/F<br/>Balance<br/>£</b> | <b>Current<br/>Year<br/>Payment<br/>£</b> | <b>Legacy<br/>Payments<br/>£</b> | <b>Amount<br/>Utilised<br/>£</b> | <b>C/F<br/>Balance<br/>£</b> |
|------------------|------------------------------|---|----------------------------------|----------------------------------|------------------------------|
| <b>2018 / 19</b> | 0                            | 220,274                                   | 475,527                          | 475,527                          | 220,274                      |
| <b>2019 / 20</b> | 220,274                      | 197,868                                   | 634,567                          | 414,293                          | 638,416                      |
| <b>2020 / 21</b> | 638,416                      | 227,878                                   | 669,655                          | 251,512                          | 1,284,437                    |
| <b>2021 / 22</b> | 1,284,437                    | 0   | 418,142                          | 0                                | 1,702,579                    |
| <b>2022 / 23</b> | 1,702,579                    | 0   | 197,868                          | 0                                | 1,900,447                    |

- 3.16.5 The total up to 2020 / 21 of £1,284,437 is included in the earmarked reserves balance carried forward table above.
- 3.16.6 The utilisation/use of this reserve will be a decision for members since the NHB is not ring fenced and can be used for supporting services of the Council. It should be noted that over the next few years the Local Development Plan is scheduled to be reviewed and the estimated cost currently stands upwards of £0.5m. Therefore, it is important that the reserve is utilised prudently for significant revenue or capital projects that cannot be accommodated from within existing budgets and/or general reserves. If used for capital projects purposes then it would be as Revenue Contribution to Capital expenditure through the General Fund Revenue account.

### 3.17 **Medium Term Financial Strategy (MTFS)**

- 3.17.1 The MTFS is currently being drafted and will be presented to Council on 13 February 2020 for consideration at the same time as the suite of financial reports for 2020/21.

### 3.18 **View on Risks**

- 3.18.1 Risks to the Council's financial position could derive potentially from budget overspend, loss of investment income, contractual / legislative failure, shortfall in forecast business rates growth or challenge and emergency events. Historically, the Council's outturn has been within budget and investment income has been above budget; therefore, this is not seen as a high risk to the Council and it is not necessary to make additional significant provision. However, robust budget management, monitoring and reporting will be a key discipline for all budget managers and ensuring that savings and income levels included in the budget are achieved, will be a key focus.
- 3.18.2 The level of risk posed by contractual or legislative failure and emergency events is difficult to predict, but it would be a low probability with a potentially high impact. However, it is not appropriate to set aside large amounts of reserve against the possibility of this happening and that appropriate bond / Parent Company Guarantee have been built into large contracts.
- 3.18.3 It is important to recognise that with the introduction of the Business Rates Retention, there is a considerable degree of uncertainty in the forecast for business rates growth as much of it depends on external factors including the impact of successful appeals. The Council's own economic development policies can have an impact on business rates growth and therefore it is important that the planning services, economic development services and the business rates service have a co-ordinated approach to inward investment policies. It is important to ensure a high level of growth in the District, as any empty properties create a risk on the level of Business Rates income the Council will receive.
- 3.18.4 The UK is due to leave the European Union (EU) on 31 January 2020. At the time of writing this report, there is still large uncertainty over what, if anything will be the fallout from this, and therefore this is a high-risk area until such time that a deal is made. Officers will continue to monitor to ensure that any developments are picked up as soon as possible.

- 3.18.5 In setting budgets and projections for individual years, it is important that the Council is not reliant on the use of reserves to support revenue expenditure thus creating an unsustainable future. The inclusion of the significant items of expenditure in 2020 / 21 for the Pension Fund deficit recovery of £1,556,202, the waste management contract of £100,000 and the additional budget provision to cover the vacant post of the Director of Resources are one-offs and are significantly large that they cannot be accommodated from within the in year budget hence the use of the general fund reserve/balance.
- 3.18.6 Section 25 of the 2003 Local Government Act requires the Director of Resources to make a formal report to the Council on the robustness of the budget and adequacy of reserves (**APPENDIX 5**).

## **4. CONCLUSIONS**

- 4.1 After including all items within the financial projections, general fund and earmarked reserves at the start of 2020/21 are expected to be £7.539m with all known movements considered. The government has set the referendum threshold for the increase in the average band D council tax in 2020 / 21 for district councils at 2% or £5 whichever is the greater. Due to the unknown impact of future changes to Local Government finance, it is proposed that the Council should take the opportunity to increase its financial base by increasing the average band D council tax by £5, the maximum allowed for by the government before a referendum is required.

## **5. IMPACT ON STRATEGIC THEMES**

- 5.1 This report sets out the resources that are and will be available to the Council in 2020/21 to meet the outcomes set out in the three strategic themes of Place, Community and Prosperity.

## **6. IMPLICATIONS**

- (i) **Impact on Customers** – The budget process ensures that changes in service delivery resulting in budget changes are reviewed by Officers and Members so that any impact can be considered. In 2020 / 21, only essential budget growth has been considered.
- (ii) **Impact on Equalities** – The budget affects all residents in the District, it is not considered that the growth bids for 2020 / 21 individually impact negatively on an individual user group.
- (iii) **Impact on Risk** – The distribution of resources reflected in the revenue and capital budgets is designed to support the Authority's approach to risk management (i.e. to reduce all major corporate risks to a level within approved tolerances through the implementation of approved mitigation plans).
- (iv) **Impact on Resources (financial)** – This report details the impact on financial resources.

- (v) **Impact on Resources (human)** –The budget includes a pay inflationary increase.
- (vi) **Impact on the Environment** – None directly.

Background papers: None.

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