

<b>Subject:</b>	2020/21 Corporate Priorities, Budget, Council Tax and The Medium Term Financial Strategy		<b>Status:</b>	For Publication			
<b>Report to:</b>	Council		<b>Date:</b>	26 <sup>th</sup> February 2020			
<b>Report of:</b>	Interim Chief Financial Officer		<b>Portfolio Holder:</b>	Resources			
<b>Key Decision:</b>	<input checked="" type="checkbox"/>	Forward Plan	<input checked="" type="checkbox"/>	General Exception	<input type="checkbox"/>	Special Urgency	<input type="checkbox"/>
<b>Equality Impact Assessment:</b>	Required:	No	Attached:	No			
<b>Biodiversity Impact Assessment</b>	Required:	No	Attached:	No			
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<b>1.</b>	<b>RECOMMENDATIONS</b>
1.1	That Members approve a 2020/21 Council Tax rate for Band D of £279.57, being a 1.99% increase.
1.2	That Members approve the use of £69k from the Council Tax collection fund and £686k from the Business Rates Retention reserve to support the 2020/21 annual budget.
1.3	That the Council approves a net revenue budget for 2020/21 of £9.006m.
1.4	That Council approves the Fees and Charges as noted in Appendix 1.
1.5	In line with the previous year, Council approves that allowances will not increase in line with inflation going forward, until further notice and will be revisited as part of the next full review in 2022.
1.6	That Council agrees the technical resolutions necessary to give effect to these proposals (Appendix 4).

## 2. PURPOSE OF REPORT

2.1 The purpose of the report is to enable Full Council to consider the Revenue Budget and level of Council Tax for 2020/21, together with implications for the Council's Medium Term Financial Strategy (MTFS).

## 3. CORPORATE PRIORITIES

- 3.1 The matters discussed in this report impact directly on the following corporate priorities:
- **A clean and green Rossendale:** our priority is to keep Rossendale clean and green for all of Rossendale's residents and visitors, and to take available opportunities to recycle and use energy from renewable sources more efficiently.
  - **A connected and successful Rossendale that welcomes sustainable growth:** our priority is to ensure that we are well connected to our residents, key partners and stakeholders. We want to make the most of every pound we spend and we are always looking for new and innovative ways to make the resources we do have, work harder for us.
  - **A proud, healthy and vibrant Rossendale:** our priority is to ensure that we are creating and maintaining a healthy and vibrant place for people to live and visit.

The primary focus of the Council's budget setting is to support its Corporate priorities.

#### 4. RISK ASSESSMENT IMPLICATIONS

- 4.1 **Section 25 Report:** As part of the final recommendations to Council Section 25 of the Local Government Act 2003 places a requirement on the Chief Financial Officer of each local authority (in Rossendale this is currently the Interim Chief Finance Officer) to advise councillors during the budget process on “the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed financial reserves”. This provision is designed to ensure that Members have information which will support responsible financial management over the longer term.
- 4.2 **Council Tax:** In setting the 2020/21 Budget Members should continue to plan and give due regard to the continued financial challenges over the medium term. In particular Members should be aware of the future implications for the Council’s financial resources of any Council tax freeze or any increase below the Governments referendum trigger of the higher of £5.00 or 2%.
- 4.3 **Reserves:** Members should note that the budget proposals for 2020/21 do not include any reliance on the use of the Transitional Reserve. This is however, a one off over the medium term and is a result of the Government’s delay in implementing a new national 75% NNDR/Business Rates local retention scheme.
- 4.4 **Resources:** In previous years, financial pressures have been reported namely the impact of the reduction in the annual value of New Homes Bonus (now c. £302k pa from a previous peak of c. £1m pa). 2018/19 was the final year for NHB calculations.
- 4.5 **Funding gap:** The medium term financial forecast indicates an underlying deficit of c. £0.44m (subject to the assumptions noted below and before future savings initiatives). Members must continue to give due consideration as to how they are to bridge this annual deficit going forward, in order to produce legally balanced budgets for the future. Subject to the above the maximum resources available to the Council are clear (both annual and existing reserves), therefore, the Council must continue to address its annual net cost base in order to, amongst other things: identify expenditure outside its statutory and contractual commitments, maximise income opportunities and to ensure it has the appropriate annual resources to support its annual net expenditure.
- 4.6 **NNDR arrangements for 2020/21:** The Government’s planned introduction for a new national 75% retention scheme for 20/21 has been deferred. The arrangements for 20/21 are therefore similar to those of 18/19 by which the Council retains 40% of all business rates and avoids the repayment of a 50% levy on any end of year surplus.

The greatest risk within previous MTFS publications has been the future of the £1m pa NNDR revenue gains made as a result of growth and pooling arrangements. The growth of £1m pa has formed part of the Council’s previous core funding assumptions. As previously stated there is a risk that the new national arrangements once introduced together with the Fair Funding Review (also deferred) will increase tariff levels so that previous gains are significantly reduced. Given the gains anticipated on net pension contributions (c. £800k) the forecast future annual gains from NNDR have been reduced to £200k pa.

- 4.7 **Pay:** 19/20 was the final year of a 2 year pay agreement. The assumptions for 20/21 and beyond are set at 2% pa (plus increments). Given inflation of 1.7% (Sept 2019) and some pressure to see a real increase in Public Sector pay, a 2% assumption would seem to be a reasonable one. See also the Section 25 comments (Appendix 2).

The budget also assumes, as in previous years a £150k saving as a result of natural staff

turnover and the vacancy saving this creates. Albeit achieved in 19/20 and previous years this continues to be a challenging target.

4.8 **Fair Funding Review:** As noted above this was due to be published in time for 20/21 financing arrangements but has been postponed. The implications for this Council are in the main the impact on our share of Business Rates and in particular the setting of tariffs and our baseline funding.

4.9 **Corporate Risk register:** Previous forecasts have resulted in the MTFS being in the “red” zone for the purposes of the Council’s risk register/matrix. The November MTFS update brought the rating down to “amber”. Members may wish to reconsider the suitability of the current risk rating in light of this current MTFS update.

## 5. BACKGROUND

5.1 For a number of years the Council has continued to reduce its net revenue expenditure in line with, initially its own efficiency agenda and more so, of late, the impact of the Government’s 2015 Comprehensive Spending Review (CSR), the 2019 one year CSR update and the proposed changes to Local Government Financing over both recent years and the future. This has resulted in all District Councils now being reliant on the income they generate from their own locality, be it from: residents, visitors, property, and/or businesses.

### 5.2 One-off Cost Pressures or Investment

There are no new specific cost proposals for Members to approve for 2020/21.

5.3 **Net Revenue expenditure:** The November updates to the MTFS assumed an annual increase in Council Tax of 1.99% per annum in line with the Government’s maximum of 2.0% being the trigger point for a local referendum.

Subject to the above, the 2020/21 net budget estimates, resources and future forecasts are as follows:

	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
<b>Budget Estimates</b>	<b>9,931</b>	<b>9,006</b>	<b>8,915</b>	<b>9,040</b>	<b>9,202</b>
Estimated Funding:					
Council Tax (+2.0%)	5,591	5,769	5,884	6,002	6,122
Council Tax - growth in base	0.5%	-	29	58	87
Revenue Support Grant	-	-	-	-	-
NNDR (Business rate: Base Line Funding)	2,144	2,180	2,224	2,268	2,313
New Homes Bonus	485	302	213	42	-
Collection Fund Surplus - Council Tax	-	69	-	-	-
NNDR Retained / Pooling	1,200	686	200	200	200
<b>Resources</b>	<b>9,420</b>	<b>9,006</b>	<b>8,550</b>	<b>8,570</b>	<b>8,722</b>
<b>Surplus / (further savings required)</b>	<b>(511)</b>	<b>(0)</b>	<b>(366)</b>	<b>(470)</b>	<b>(480)</b>

The potential future changes (2021 onwards) with regarded to cost pressures and possible savings currently being explored by officers some of which were identified in the November 2019 MTFS update are as follows:

Potential changes	2021-22 £'000	2022-23 £'000	2023-24 £'000
Whitaker Museum - reduction in support post Lottery bid (current c. £90k)	40	40	40
Annual capital contribution (Current £100k) reduce	25	25	25
Fees and charges: annual increase by at least inf'n of 1%	14	28	42
Operations: Commercial activity / increased productivity	20	40	60
Digital transformation & service delivery	26	51	101
Review of partner grant funding	0	0	0
New Commercial Investments (c. 8.6% gross, 6.8% funding)	18	19	20
NNDR Growth (RBC share 75% retention)	20	30	40
Spinning Point Phase 2: Investment returns (to be confirmed)	0	0	0
Volume & Technical (contingency)	(75)	(75)	(75)
<b>Total</b>	<b>88</b>	<b>158</b>	<b>253</b>

There are clearly some key and challenging projects above not least: new commercial/property activity, digital transformation however it is reasonable to assume they can be achieved.

This therefore gives an overall MTFS (funded in the earlier years from Transitional Reserves) as follows:

	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
Initial funding gap	(511)	(0)	(366)	(470)	(480)
Potential net future savings	0	0	88	158	253
Revised funding (gap) / surplus	(511)	(0)	(278)	(312)	(227)

*NB*

- The above demonstrates an annual deficit which in the immediate periods is funded through the use of the Transitional Reserve. The total value of this reserve is estimated to be £2.0m at 31<sup>st</sup> March 2020 (subject to the close down of 2019/20), enough to fund the reducing deficit over the immediate period.*
- The draft budget book for 2020/21 (based on the above) is included at Appendix 3.*

The Key assumptions (and in some cases changes previous MTFS updates) report are:

- Budget estimates:
  - Annual pay award 2% pa 20/21 onwards – this is in line with the last 2 year pay agreement which expires 31<sup>st</sup> March 2020 (1% equates to c.£60k, inclusive of on costs).
  - Assumes an annual staff vacancy saving of £150k pa – no change to previous assumptions.
  - Pension costs for future service now at 17.6% of gross pay the cost of which will be fixed for three years as the Council takes advantage of the Pension Fund's full three year prepayment option in April 2020.

2. Council tax to increase by 1.99% (previously 2.99% in February 2019) with growth in the tax base of 0.5% pa. 2.0% is the Government's maximum before triggering a local referendum.
3. The Government's provisional settlement (December 2019) confirmed the NNDR baseline funding and New Homes Bonus payment.
4. NNDR:
  - a. The benefits of the 20/21 pooling arrangement are forecast to contribute a further £1m surplus to reserves of which £692k has been used to support 20/21 expenditure. This is based on the outcome of previous years and known growth.
  - b. However, beyond 20/21 the outlook is extremely uncertain as 2021/22 should see the introduction of the Government's own proposals for the 75% retention of business rates. The MTFs does assume a continued retained gain of £200k pa less than previous assumptions of £1m. Given the Government's previous consultation on business rates retention and the future Fair Funding review, this assumption continues to have some risk as the 21/22 and future position could be that all or some greater proportion of growth, previously gained over the last 4, years will be taken away from Council.
5. New Home Bonus (NHB) ceased being earned in 2018 and shows a steady decline ending in 22/23.

5.4 Changes in the base budget costs between 2019/20 and 2020/21 are as follows:

	£000
<b>2019/20 Base Budget</b>	<b>9,931</b>
Employment Costs	226
Contract Inflation	25
Savings	(1,053)
Volume & Technical changes	(123)
<b>2020/21 Budget</b>	<b>9,006</b>

(i) The main savings changes are noted below:

(See table on page 6)

	£000
Pension contributions	810
Commercial activity	198
Grants	20
ICT Savings	20
Internal Audit	5
<b>Total</b>	<b>1053</b>

(ii) The key net changes in increased Volume & Technical are noted below:

	£000
Revenues and Benefits Contract	(54)
Staff savings	(124)
Licensing fees, net decreases	78
Interest charge reductions	(33)
DWP admin grant	12
Misc	(2)
<b>Total</b>	<b>(123)</b>

The key changes in the 23/24 funding gap since the November 2019 MTFS update are as follows:

	£000
<b>November 2019 forecast gap (23/24)</b>	<b>49</b>
Reduction in Taxi Licensing Fees	66
NNDR gains (transferred to Collection Fund)	20
Fee increases less than expected	52
C. Tax growth (double counted)	28
Miscellaneous	12
<b>Current Forecast</b>	<b>227</b>

Albeit the MTFS forecast does include a £75k contingency, the Council still has some work to do in finding cost savings or income growth to bridge the funding gap or to at least get the funding gap to a more manageable and reasonable level (eg: less than £100k).

## 5.5 The level of Council Tax for 2020/22

Council will make its final recommendations on 26<sup>th</sup> February 2020

Other precepting authorities will announce their Council Tax changes as follows:

- Lancashire County Council – 13<sup>th</sup> February 2020
- Lancashire Fire & Rescue – 24<sup>th</sup> February 2020
- Lancashire Police & Crime Commissioner – xx February 2020
- Whitworth Town Council – 16<sup>th</sup> January 2020

The current Band D Council Tax for 2020/21 and the previous change across Rossendale is as follows:

		2019/20	2020/21	
Precepting Body	% Increase	Band D £	Band D £	% Share
Rossendale BC	1.99%	274.12	279.57	14.2%
Lancashire County Council *	1.99%	1,250.89	1,277.69	65.1%
LCC Adult Social Care *	2.00%	95.70	122.63	6.2%
Combined Fire Authority	1.99%	69.48	70.86	3.6%
Police & Crime Commissioner	4.96%	201.45	211.45	10.8%
<b>Total (Excl' Whitworth)</b>	<b>3.73%</b>	<b>1,891.64</b>	<b>1,962.20</b>	<b>100.0%</b>
Whitworth Parish Council	3.99%	24.82	25.81	
<b>Total Whitworth Parish</b>	<b>3.73%</b>	<b>1,916.46</b>	<b>1,988.01</b>	

*\* percentage increase is based on the total combined tax level*

## Council Tax Base

The Council Band D Tax base has increased by 239 homes, 1.17% to 20,635 Band D equivalents. Any variation through actual billing will be reflected in the Collection Fund. Future estimated increases in the Council Tax have been assumed at 0.5% c 102 Band D equivalents. The Local Plan target is 212 pa (albeit there is no Band D equivalent published).

### 5.6 2020/21 Provisional Settlement and beyond

The provisional one year only Settlement Funding Assessment for 2020/21 was announced in 20<sup>th</sup> December 2019. The key messages arising from the settlement are:

- The overall settlement announcement was in line with our November 2019 MTFS update and expectations.
- 2% maximum annual increase (previously 2%) for Council Tax without triggering a local referendum.
- Confirmation of our NNDR baseline funding and previously earned New Homes Bonus.

### 5.7 Fees & Charges

The annual budget requires that any changes to the Council's fees and charges be approved by Members. Unless there is commercial justification not to increase fees or an alternative statutory regulation, the proposal is to increase all fees and charges by the greater of 1% or CPI, as previously approved by Members. The September 2019 the consumer price index published annual inflation at 1.7%.

A full list of fees (including previous year comparisons) are included at Appendix 1.

### 5.8 Bridging the Council's future budget funding gap

The Council continues to be faced with a funding gap for the future. Therefore, amongst other things, the Council should continue to give consideration to:

- The future levels of Council Tax
- Maximising the returns to Council from Business rates revenues
- The Council's ability to support non-statutory activities, other partner/community organisations and their alliance to the Council's corporate priorities.

- The future quality and standard of statutory service provision
- Any remaining efficiencies within Council services and ensuring support services are appropriate.
- The Council's ability to exploit new commercial and revenue generating opportunities, albeit, in the main material returns will be medium to long term particularly when borrowing is involved.
- Treasury management initiatives and maximising the strength of the Council's balance sheet resources. Historically this was the use of internal borrowing but this is becoming less of an opportunity as we use our cash reserves.
- A continual review of internal structures and taking advantages as opportunities arise.
- Ensuring any contractual renewals and arrangements are to the best advantage of the Council.
- Transformational change opportunities in the delivery of core Council services.

## **COMMENTS FROM STATUTORY OFFICERS:**

### **6. SECTION 151 OFFICER**

6.1 The key financial matters are dealt with above.

6.2 The matter of any increase in Council Tax is a matter for Members. In making their decision Members should give consideration of the deficit facing the Council over the medium term. Given the Council's future deficit an increase of 1.99% in Council Tax is strongly recommended by the s.151 officer. Any change to Council Tax below the maximum allowed, has an ongoing and cumulative negative impact on future year resources.

6.3 The Council continues to face a funding gap challenge compared to the available resources and despite the savings/efficiencies and income generation work already completed this year and in previous years. Given that the Council has a statutory duty to produce annually a balanced budget it is legally bound to find a solution to the estimated future funding gap. There are also some high risk assumptions in the forecast, as previously noted. Ultimately the use of reserves to balance the funding gap, although legal, is both finite and financially an inefficient use of limited resources and means that reserves are not available for other longer term community benefit or annual financial returns that other projects may bring. Given the cumulative effect of Council Tax increases it is therefore imperative that Council continue to increase Council Tax to support long term financial sustainability.

6.4 *Key Message:*

*It is clear that given the 2020/21 cost base and the financial gap over the longer term that Council needs to continue develop plans, during 2020/21, to reduce its net cost base by at least a further £200k pa in order to avoid initial reliance on limited reserves and to deal with the future resource deficit. Therefore, the Key messages for the medium term continue to be:*

1. *Council must continue to increase Council Tax in line with the Governments maximum thresholds.*
2. *Council must give further consideration in its financial planning to either reduce costs or increase revenues.*
3. *The introduction of the national "75 Business Rates Retention Scheme" as from 2021/22 and the results of the Fair Funding review could materially impact negatively on the Council's current share of annual business rates; increasing the MTFs pressure even further.*

### **7. MONITORING OFFICER**

7.1 No further comments.



## 8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 The Equality Act 2010 requires the Council to have due regard in the exercising of its functions to three considerations. The need to:

- Eliminate discrimination. Harassment and victimisation and any other conduct that is prohibited by or under the Act.
- Advance equality of opportunity between people who share a relevant protected characteristic and people who do not share it.
- Foster good relations between people who share a relevant protected characteristic and those who do not share it.

The amount of regard that is “due” is set out in the Act and will depend on the circumstances of the case. Under the general equality duty there is a requirement to engage with people with protected characteristics and to have an adequate evidence base for Council decision-making.

The duty to inform, consult or involve requires that the council must involve communities and those directly affected at the most appropriate and proportionate level in ‘routine functions, in addition to one-off decisions.’ Further, under the duty of Best Value the Council is required to consult representatives of a wide range of local people; this should include local voluntary and community organisations and small businesses in such consultation.

8.2 Consultation took place with:-

- Cabinet and Management Team
- Members (Cabinet MTFS update – November 2019).
- Overview & Scrutiny (3<sup>rd</sup> February 2020)
- Council Website – December 2019

## 9. CONCLUSION

9.1 The Council must remain focused on identifying and delivering further efficiencies and income in order to ensure annual balanced budgets over the immediate and medium term.

It must also ensure that all its budget resource allocations are directed to the core functions of the Council and that the use of its resources has clear links to the Council’s Corporate Priorities.

The proposals have been considered and approved by the Overview and Scrutiny Committee on 3<sup>rd</sup> February and Cabinet on 12<sup>th</sup> February 2020.

### Background Papers

Document	Place of Inspection
Previous updates to the MTFS	Rossendale Borough Council website
Government’s Financial Settlement	DCLG website