

Gloucester City Council

Meeting:	Overview & Scrutiny Cabinet	26th November 2018 5th December 2018
Subject:	Money Plan 2019-24 & Budget Proposals 2019/20	
Report Of:	Cabinet Member for Performance and Resources	
Wards Affected:	All	
Key Decision:	No	Budget/Policy Framework: Yes
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Appendices:	1. Money Plan 2019/20 – 2023/24 2. Budget Pressures & Savings 3. Savings Programme 4. Draft 2019/20 – 2023/24 Capital Programme 5. Draft Budget Book	

FOR GENERAL RELEASE

1.0 PURPOSE OF REPORT

1.1 To review the Council's Money Plan for recommendation to Council.

2.0 RECOMMENDATIONS

2.1 **Cabinet** is asked to **RESOLVE** that:

- (1) That the assumptions contained in the Council's draft Money Plan from 2019/20 to 2023/24 and revisions to the draft revenue budget be approved.
- (2) That the uncertainties regarding future incomes, as shown in this report and Appendix 1, and the need to update the Draft Money Plan when there is more certainty regarding Central Government financing, be noted.

3.0 Introduction

3.1 The Money Plan sets out the Council's strategic approach to the management of its finances, and presents indicative budgets and Council Tax levels for the medium term. It covers the General Fund Revenue Budget, the Capital Programme and Earmarked Reserves. It also comments on the significant financial risks facing the Council in the forthcoming years and explains what the Council is doing to reduce those risks.

3.2 The main objectives of the Money Plan are to:

- explain the financial context within which the Council is set to work over the medium term;
- provide a medium term forecast of resources and expenditure;
- identify the financial resources needed to deliver the Council's priority outcomes, in line with the Council's plan;
- achieve a stable and sustainable budget capable of withstanding financial pressures;

- achieve a balanced base budget, minimising the use of balances to meet recurring baseline spending, with the General Fund balance being maintained at a minimum of 10% of net expenditure by the end of the plan period;
- where possible, additional investment and spending decisions will be made to reflect Council priorities and strategic commitments, with disinvestment and budget savings being made in non-priority areas; and
- ensure capital financing is established at a level that maintains ongoing robustness in the capital programme.

4.0 The Local Government Finance Environment

- 4.1 The Council's Money plan provides the framework within which revenue spending decisions can be made over the medium term. It is reviewed and updated on an annual basis to take into account any alterations that may be required as a result of changed circumstances. The Money Plan covers a five year period up to 2023/24.
- 4.2 Local Government continues to face a tough financial outlook, with funding pressures set to continue. The Local Government Finance Settlement in recent years has seen unprecedented reductions in formula grant.
- 4.3 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.
- 4.4 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 Gloucester will reduce. A worst case estimate would see a reduction to baseline however the plan is slightly more optimistic at this stage, and Business Rates forecasts have therefore been reduced by that amount from 2020/21 onwards in the draft Money Plan.
- 4.5 As a result of this uncertainty the draft Money Plan assumes that in 2020/21 a one off draw from Business Rates Reserve will be required. It is vital that any future use of pilot benefits take this requirement into account to protect the Council in the future.

Local Government Finance Settlement 2018/19 and 2019/20

- 4.6 On the 19th December 2017, the secretary of State for Communities and Local Government announced the provisional Local Government settlement for 2018/19. The announcement included the following proposals to be delivered over the spending review period that will potentially affect the Council:
- 75% business rates retention in 2020/21 compared to previous announcements of 100% in the same timeframe.
 - Flexibility for District Councils to increase Council Tax by £5 a year or 3% whichever is the greater.
 - The continued offer of 4 year settlement for Councils that apply through demonstrating an efficiency plan. 2019/20 is year 4 of this offer.
 - The continued ability to use 100% of Capital receipts from 1 April 2016 to assist in funding efficiency reforms
 - Retention of New Homes Bonus, with no current plans to change the provision.

4.7 In addition to the detailed proposal for 2018/19, the settlement provided indicative figures for each financial year up to 2020/21. The financial settlement for 2019/20 is expected to be announced on 6th December 2018, however as in previous years this date may slip.

4.8 The Chancellor delivered his budget on October 29th 2018. Following this announcement there were no changes required to the draft Money Plan. The key announcements within the budget regarding local government were as follows;

- £650m additional grant funding for social care in 2019-20.
- £45m for DFG in 2018-19
- £84m on 5 years on children's programme
- £450m for highways authorities

Longer term spending decisions on local government funding will be made in the 2019 spending review.

4.9 The Chancellor also announced £675m for a Future High Streets Fund. The fund will serve two purposes:

- Support local areas to prepare long-term strategies for their high streets and town centres, including funding a new High Streets Taskforce to provide expertise and hands-on support to local areas; and
- Co-fund with local areas projects including:
 - Investment in physical infrastructure including improving public and other transport access, improving flow and circulation within a town / city centre, congestion-relieving infrastructure, other investment in physical infrastructure needed to support new housing and workspace development and existing local communities, and the regeneration of heritage high streets.
 - Investment in land assembly including to support the densification of residential and workspace around high streets in place of under-used retail units.

The fund will also support the regeneration of heritage high streets (up to £55m of the overall fund). This will have two elements:

- Helping to restore historic high street properties through Historic England; and
- Equipping communities with their own resources to put historic buildings back into economic use - for example as residential buildings, new work spaces or cultural venues, supported by the Architectural Heritage Fund.

The application process for expressions of interest are expected to be in the Spring 2019

4.10 The Council took up the Government's offer of a 4 year settlement and submitted an efficiency plan prior to the deadline of 14th October 2016. There are no expected changes to this offer of certainty to remain over the four years of the offer. 2019/20 is the last year of the four year settlement.

4.12 The other key risk is New Homes Bonus (NHB). Government has further consulted on the level of reward and potential reductions to NHB. No further changes have been made to the level of 'deadweight' (i.e. a minimum threshold for housing growth above which NHB payments will be made, currently 0.4%) or a reduction based upon successful planning appeals. If the deadweight is increased further reductions can be expected

4.13 The settlement continues to use the 'core spending power' measure. Core spending power is made up of the following elements;

Settlement Funding Assessments (SFA)

This is made up of;

- Revenue Support Grant
- Baseline Funding Level

The SFA also details level of Tariff on retained business rates and the Safety Net Threshold.

Instead of cutting all SFA by a set percent, Government take into account the ability to raise Council Tax locally. There are four key variables;

- Funding reductions
- Split of reductions between tiers
- Council Tax Base
- Council Tax Rate

Council Tax Requirement (CTR)

The core spending power assumes district councils will increase Band D Council Tax by whichever is the greater of £5 or 3%. The plan assumes an increase of 3%.

New Homes Bonus (NHB)

The provisional financial settlement has indicated NHB to be £1.745m for 2018/19 in comparison to £2.687m in 2017/18. Based upon current estimates this is expected to fall further in 2019/20 to £1.192m.

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 Money Plan for the final years of the plan as a prudent estimate.

5. Business Rates Retention

- 5.1 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 5.3). 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.
- 5.2 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 £800k. 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. Options will be presented to members when the final amount is known.
- 5.3 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.

- 5.4 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.
- 5.5 Under 100% retention, any business rates income generated over the Baseline Funding Level of the Pilot, having taken into account tariffs paid to central government, is retained within the pilot area. There is no levy as there is with the current 50% scheme. The financial modelling undertaken has suggested a level of additional business rate retention in excess of current retention for the whole of Gloucestershire. This figure has been calculated based on a prudent assumption of likely levels of business rates in the financial year. Further growth in the business base could increase this level of retention.
- 5.6 The Government prospectus indicated that the funds generated should be used to support financial stability and sustainability. It was also felt that any bid to Government should reflect the Government’s aim of supporting both adult and children’s social care. Therefore the bid that was made built upon the distribution principles of the existing Gloucestershire Pool and suggested a distribution of:
- 20% towards the Strategic Economic Development Fund
 - 30% towards the six Districts
 - 50% towards the County Council

6. General Fund Revenue Budget - Principles and Key Assumptions

- 6.1 The principles underpinning the proposed revenue strategy are:
- i. Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources;
 - ii. No long term use of balances to meet recurring baseline expenditure;
 - iii. Resources will be targeted to deliver Corporate Plan priorities and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments.
 - iv. Maintaining the General Fund balance at approximately 10% of net revenue budget. This assumes a minimum level of £1.4m by the end of the plan.
 - v. Year on year savings targets to be met by ongoing efficiency gains, income generation and service transformation.
- 6.2 **Table 1** below, lists the major **assumptions** that have been made over the five years of the strategy:

Table 1	2019/20	2020/21	2021/22	2022/23	2023/24
Council Tax base growth	0.75%	0.75%	0.75%	0.75%	0.75%
Council Tax inflation	2.99%	2.99%	2.99%	2.99%	2.99%
Interest Rates (Earned)	0.5%	0.5%	1.00%	1.50%	2.00%
Inflation – Pay	2%	2%	2%	2%	2%
Inflation – contracts	2.5%	2.5%	2.5%	2.5%	2.5%
Inflation – other income	2.5%	2.5%	2.5%	2.5%	2.5%

7. Revenue Budget Increases

Pay and Prices Increases

- 7.1 A 2% pay award allowance has been included across the five years of the plan. It should be noted that pay awards in Local Government are covered by collective bargaining between employers and trade unions and is not subject to direct control from Central Government. However it is reasonable to assume that Local Government will mirror what happens in the rest of the public sector.
- 7.2 In addition to the increases to reflect employee pay awards, provision has also been made to meet ongoing additional payments to the pension fund required from the employer to recover the deficit.
- 7.3 The pension fund is subject to a triennial actuarial valuation, the most recent of which has been undertaken by Hymans Robertson LLP during 2016, on behalf of Gloucestershire County Council, the pension fund administrator. A £255k increase has been included for 2019/20 with an increase of £100k in each subsequent year.
- 7.4 Prices inflation has been included on selected non-pay items, namely contractual obligations. All other inflationary increases are expected to be absorbed within base budget which represents a real time reduction through efficiency gains.
- 7.5 Prices inflation is included on selected fees and charges at 2.5% for each year of the plan.

Cost Pressures and Savings

- 7.6 Cost pressures and saving are included in **Appendix 2** and total a net cost of £0.084m
- 7.7 The Council entered into an agreement for the Kings Walk Shopping Centre in July 2017 and the money plan reflects the financial benefits this has brought to the revenue budget and General Fund.
- 7.8 Significant cost pressures that have been highlighted through budget monitoring are highlighted at Appendix 2. Some key pressures are highlighted below;
- Pay scale alignment
 - Markets
 - Cultural services
 - Proposals for additional strategy and policy posts through transformation proposals.
 - Housing benefit overpayments recovery as a result of move to Universal Credit.
- 7.9 The budget savings identified in Appendix 2 for 2019/20 relate to a number of areas where actions undertaken by the Council have led to savings or income growth. Some of the key areas are highlighted below;
- Kings Walk rental growth
 - Re-tendering of parking enforcement contract
 - Re-tendering of council insurance contract
 - Further savings agreed with Civica contract

8. Efficiency Savings/Income Generation

- 8.1 The Money Plan forecasts indicate the need for a continued delivery of savings in each year of the Plan.

- 8.2 In February 2018, Council approved the implementation of the target savings for the Money Plan 2018-23. In addition to savings in previous years further savings of £200k in 2018/19 were included.
- 8.3 With the inclusion of assumed settlement figures for 2019/20 and the assumption of further formula grant reductions over the life of the plan, further savings will be required. It must be noted that the agreement entered on Kings Walk has reduced the level of savings required over the draft money plan.
- 8.4 The Local Government Finance Settlement 2018/19 has highlighted that the Council will be required to make significant additional savings. To enable delivery the plan assumes that savings will be front loaded in these years.
- 8.5 Specific actions to achieve the targeted savings will need to be approved as part of the Council's annual budget setting process in each financial year. **Appendix 3** highlights targeted savings for 2019/20 and early proposals for 2020/21. Delivering savings early in 2019/20 reduces the total savings required over the life of the plan.
- 8.6 The efficiencies and budget savings target for 2019/20 is £0.250m.

9. Overall Costs

- 9.1 With the targeted savings included from Table 3, the total costs of the Council (the "Net Budget Requirement") over the five year period of the Money Plan, change from £14.460m in 2019/20 to £13.729m in 2023/24. Any further spending pressures identified in addition to those detailed in **Appendix 2**, over the five year period of the Money Plan, will need to be funded by additional savings.
- 9.2 Summary budget pages for each service are detailed in **Appendix 5 (to follow)**.

10. Revenue Funding

Formula Grant / Localised Business Rates / Revenue Support Grant

- 10.1 Our current grant from Government for 2019/20 comprises two formula driven components - Revenue Support Grant (RSG) and a retained Business Rates target.
- 10.2 As a member of 100% full retention business rates pilot in 2018/19, we forego the equivalent of their Revenue Support Grant (RSG). For Gloucester, this amounts to £0.616m in 2018/19. On the assumption we are not in a pilot in 2019/20 the council will receive RSG of £0.09m.
- 10.3 RSG is expected to cease completely after that year.

New Homes Bonus

- 10.4 New Homes Bonus is a grant that commenced in the 2011/12 financial year and is effectively a reward for increasing the number of residential properties within an area. Whereas previously an increase in the Council Tax base is essentially offset by a reduction in formula grant, central government intends to match-fund the additional Council Tax for each new home for a period of four years.
- 10.5 New Homes Bonus is a significant source of funding for Gloucester City Council. The Council will receive New Homes Bonus in 2018/19 of £1.745, this is forecast to reduce to £1.192m in 2019/20.

Council Tax

10.6 The Local Government Finance Settlement includes Council Tax Requirement (CTR) as part of the Councils 'Core Spending Power'. CTR is assumed to grow as part of the settlement as follows;

- based upon an average growth in Council Tax Base, based upon the years 2013/14 to 2015/16,
- and also increase by an assumed growth based upon CPI at an average of 1.75%.
- assumed increase of £5 or 3% whichever the greater

Therefore to maintain CTR in line with government assumptions the minimum year on year increase should in line with bullet points above.

10.7 The Government has reaffirmed that if the level of Council Tax rise is greater than 3% or £5, whichever being the higher, a referendum would be required. The Money Plan assumes an increase in Council Tax of 2.99%.

11. General Fund Balance

11.1 The estimated level of the general fund balance in each financial year is shown in **Appendix 1**. The General Fund level is at the minimum required level by the end of the Money Plan.

11.2 It should also be noted, that although £1.400m is considered an appropriate level of General Fund balances to retain each year, the position should be reviewed if the Council delivers a budget surplus at year end. The level of savings required over the next few years, is likely to be significant, so any opportunity to phase the transition by increasing and then using General Fund balances, could be considered.

11.3 In the financial year 2019/20 it is proposed to reduce the General Fund by £0.103m.

12.0 Capital Programme and Capital Financing

12.1 The key financial details on capital expenditure and financing in the revised money plan for the 5 years from 2019/20, are shown in detail at **Appendix 4**, and summarised below:

1. Capital programme expenditure of £9.338m. Some key projects are: the Kings Square Development; City Centre Investment Fund, ICT Transformation Projects and externally financed housing projects.
2. Capital financing comprises grants, Capital receipts and borrowing.

12.2 Kings Square is a key deliverable in the overall Kings Quarter regeneration programme. The regeneration of Kings Square is key to delivering the assumed income growth in Kings Walk Shopping Centre and will enhance the opportunities to deliver new income streams in future phases of the Kings Quarter development. The investment in the square will be financed as part of the overall capital programme.

12.3 The capital programme assumes the majority of capital financing will be funded through the use of current and expected future capital receipts, where these are not available it will be met from external grants and borrowing. The future financial commitments will be approved based on specific income generating, or revenue saving business cases to fund the cost of the borrowing. The main exceptions to this policy will be essential works on the Council's buildings and ICT systems, which will result in a reduced maintenance liability or potential increase in asset value and ensure delivery of the Councils transformation programme.

- 12.4 Wherever possible and desirable, additional one-off capital investments on a business case basis will be made, providing corporate objectives are delivered, and financing is available and affordable within existing budgets, or preferably with the provision of a “spend to save” revenue saving on existing budgets.
- 12.5 The strategy on borrowing is to ensure that any borrowing is only undertaken on a business case basis, and is affordable and paid off over the life of the asset.
- 12.6 **Appendix 4** shows the proposed capital budgets for 5 years from 2019/20 incorporating any carried forward capital budgets and new, approved schemes. The capital programme will be updated for any future additions, such as Kings Quarter further development, subject to the required level of approval being made.
- 12.7 The 2016-17 Local Government Finance Settlement provided, “Statutory guidance on the flexible use of Capital receipts”. The Council approved this strategy in February 2017. Where appropriate this flexibility will still be used to fund transformation where Capital receipts are available and the programme fits the requirement to flexibly use Capital receipts.

13.0 Earmarked Reserves

- 13.1 The Council has limited earmarked reserves with the balance at 31 March 2018 being £4.720m, an increase £0.451m on the position at 31 March 2017, consisting of;

• Insurance reserve	£0.010m
• Historic buildings reserve	£0.053m
• Portfolio reserve	£0.060m
• Shopmobility reserve	£0.029m
• Members Allocation reserve	£0.001m
• Repairs reserve	£0.400m
• Environmental reserve	£1.000m
• Regeneration reserve	£0.435m
• VAT Shelter reserve	£0.736m
• Business Rates reserve	£0.834m
• Trading Development reserve	£0.050m
• Land adoption reserve	£0.801m
• Community Builder Reserve	£0.085m
• Planning Grant reserve	£0.065m
• Economic Development Reserve	£0.020m
• Flooding Works Reserve	£0.010m
• Meet & Greet Reserve	£0.004m
• Lottery Reserve	£0.019m
• Police Contribution Reserve	£0.015m
• Great Place Reserve	£0.093m

- 13.2 Where earmarked reserves are not ring fenced for a specific use, then if necessary, these reserves may potentially be used to support the General Fund.
- 13.3 The Council does face significant uncertainty from 2020/21 forwards and it is expected there will be a significant reduction in retained funding from business rates either through reset or the outcomes of the fair funding review. The Council will need to ensure there is sufficient funding in the Business Rates reserve to offset this. The plan assumes £1m will be drawn from this reserve.
- 13.4 During 2018/19 the Council will also draw on earmarked reserves in delivering the transformation program and move from the docks warehouses. Both these important programs will deliver long term benefits to both the Council and residents, however the earmarked reserves will need to returned to a level to protect the Council going forward.

14.0 Alternative Options Considered

14.1 The Council must set a balanced budget in time to start collecting Council Tax by 1st April 2018. Alternative proposals put forward for budget savings will be considered as part of this process.

15.0 ABCD Implications

15.1 There are no ABCD implications as a result of this report.

16.0 Financial Implications

16.1 Contained in the body of the report.

17.0 Legal Implications

17.1 Legislation places a duty on the Council, as the Billing Authority, to calculate its budget requirement for 2019/20. The Council also has a statutory requirement to set a balanced budget.

18.0 Risk & Opportunity Management Implications

18.1 Covered in the report. The budget is prepared based on the information available at the time of writing. The budget pressures facing the Council have, as far as possible, been built into the budget.

18.2 The risks are set out more fully in the report but in summary centre around the continuing economic situation and the impact this is likely to have on the public sector, driving changes to Government funding in future years and the level of the Council's spend from 2019/20 onwards.

18.3 In addition to the risks identified in the report, a list of additional identified risks for both the Draft Money Plan and the Budget for 2019/20, along with the mitigations is also shown below:

Risk Identified	Inherent Risk Evaluation (scale 0-16?, where 16 represents highest risk)		Proposed measures	Residual Risk Evaluation (scale 0-16?, where 16 represents highest risk)	
<ul style="list-style-type: none"> ▪ Employee-related costs will be more than assumed ▪ Other costs will be more than assumed 	Risk Score	6	<ul style="list-style-type: none"> ▪ Figures based on known commitments and estimated future costs. Any further pressures will need to be matched by additional identified savings. 	Risk Score	4
		8			
<ul style="list-style-type: none"> ▪ Pension fund contributions will be higher than expected. 	Risk Score	8	<ul style="list-style-type: none"> ▪ The financial plan will continue to be reviewed and updated annually for a five year period, based on known changes and informed by the most recent actuarial triennial valuation. 	Risk Score	4
<ul style="list-style-type: none"> ▪ Planned budget 	Risk	12	<ul style="list-style-type: none"> ▪ Close monitoring of 	Risk	6

<p>reductions will not be achieved</p> <ul style="list-style-type: none"> ▪ Impact of Legislative changes on Councils ongoing costs 	Score	6	<p>budgets will be carried out in each financial year.</p> <ul style="list-style-type: none"> ▪ Continuous monitoring of service pressures and ongoing focus on preventative support. ▪ Previously agreed changes to Council, tax exemptions and discounts, to help fund the shortfall in financing for local support of Council tax. 	Score	4
<ul style="list-style-type: none"> ▪ Income from fees, charges and other sources will not be as high as planned 	Risk Score	12	<ul style="list-style-type: none"> ▪ Close monitoring of income budgets will be carried out in each financial year. 	Risk Score	8
<ul style="list-style-type: none"> ▪ Timing of Capital Receipts will be later than anticipated or lower than estimated ▪ Timing of Capital payments may be earlier than estimated 	Risk Score	8	<ul style="list-style-type: none"> ▪ Close monitoring of the timing and payments of capital expenditure/income will be carried out in each financial year. Alternative savings will be identified, or contingency arrangements agreed 	Risk Score	4

20.0 People Impact Assessment (PIA):

20.1 People Impact Assessments will be carried out for each line of the budget savings, to ensure that all relevant considerations are taken into account.

21.0 Other Corporate Implications

1. Community Safety
None
2. Environmental
None
3. Staffing
None
4. Trade Union
Ongoing discussions with the Trade Union on both the money plan and budget represent a key element of the overall consultation process.

Background Documents:

Money Plan 2018-23, February 2018