Rushcliffe
Borough Council

Council

Thursday, 5 March 2020

2020/21 Budget and Financial Strategy

Report of the Executive Manager – Finance and Corporate Services

Portfolio Holder for Borough Wide and Strategic Leadership Councillor Simon Robinson

1. Purpose of the report

1.1 This report presents the detail of the 2020/21 budget, the 5 year Medium Term Financial Strategy (MTFS) from 2020/21 to 2024/25, which includes the revenue budget, the proposed capital programme, the Transformation Strategy and the Capital and Investment Strategy (with associated prudential indicators).

1.2 Cabinet have considered the attached budget and strategies and recommended their acceptance by Council along with the resultant decisions regarding Rushcliffe's Band D Council Tax and Special Expenses for 2020/21. The Governance Scrutiny Group has also recommended the Capital and Investment Strategy for adoption by Full Council.

1.3 The final financial settlement has been received from Central Government with no significant changes from the draft settlement.

2. Recommendations

It is RECOMMENDED that Council:

a) Accepts the report of the Council's Responsible Financial Officer on the robustness of the Council's budget and the adequacy of reserves (as detailed at **Annex A**);

b) adopts the budget setting report and associated financial strategies 2020/21 to 2024/25 (**Annex B**) including the Transformation Strategy and Efficiency Statement (**Appendix 3**) to deliver efficiencies over the five-year period.

c) adopts the Capital Programme as set out in **Appendix 4**.

d) adopts the Capital and Investment Strategy at **Appendix 5**.

e) sets Rushcliffe's 2020/21 Council Tax for a Band D property at £142.74 (increase from 2019/20 of £4.95 or 3.59%).

f) sets the Special Expenses for West Bridgford, Ruddington and Keyworth, **Appendix 1**, resulting in the following Band D Council tax levels for the Special Expense Areas:

   i) West Bridgford £48.51 (£48.51 in 2019/20)

   ii) Keyworth £3.76 (£1.60 in 2019/20)

   iii) Ruddington £4.12 (£3.37 in 2019/20)

g) With regards to 2e) and 2f) sets the associated Bands in accordance with the formula in section 36(1) of the Local Government Finance Act 1992; and

h) Adopts the 2020/21 Pay Policy as detailed at **Annex B, Appendix 7.**

3. Reasons for Recommendation

3.1 To comply with the Local Government Act (1972) and ensuring the budget enables corporate objectives to be achieved. The Council is required to set a balanced budget and that it has adequate funds and reserves to address its risks.

4. Supporting Information

4.1 The attached report (**Annex B**) and relevant appendices detail the following:

a) The anticipated changes in funding over the five year period;

b) The financial settlement for 2020/21 and the significant budget pressures the Council must address over the Medium Term;

c) The budget assumptions that have been used in developing the 2020/21 budget and MTFS;

d) The detailed budget proposals for 2020/21 including the Transformation Strategy (and associated programme) to deliver the anticipated efficiency and savings requirement;

e) The recommended levels of Council Tax for Band D properties for the Council and its special expense areas of West Bridgford, Ruddington and Keyworth;

f) The projected position with the Council’s reserves over the medium term;

g) Risks associated with the budget and the MTFS;

h) The proposed capital programme;

i) The proposed Capital and Investment Strategy; and

j) The Pay Policy Statement.

4.2 The salient points within the MTFS are as follows (MTFS report (**Annex B**) references are in parenthesis):

a. It is proposed that Council Tax for 2020/21 will increase by £4.95 to £142.74 (3.59%). This still means that Rushcliffe's Council Tax remains the lowest in Nottinghamshire and amongst the lowest in the country (Section 3.4);

b. Special expenses increasing slightly £712k (£696k 2019/20) although taking into effect tax base changes, this results in Band D charges for West Bridgford staying the same as 2019/20 (£48.51), Keyworth increasing from £1.60 to £3.76 and Ruddington increasing from £3.37 to £4.12 (Section 3.5);

c. Business Rates (Section 3.3) are still subject to significant uncertainty given the Government's proposals for a review of the Business Rates system in 2021/22 (delayed from 2020/21) and risk surrounding the de-commissioning of Ratcliffe-on-Soar power station in 2025 both making forecasting the likely levels of business rates difficult. The Council is anticipating £3.984m in retained business rates in 2020/21 and a reduction thereafter to reflect the anticipated changes to the Business Rates system in 2021/22;

d. The Council no longer receives Revenue Support grant (reduced to zero in 2019/20) and represents a reduction of £3.25m from 2013/14 (Section 3.6). Importantly the Council has mitigated the loss of income through its Transformation Strategy and is on track for self-sufficiency;

e. The budget includes various growth pressures (Section 4.2) including replacement refuse bins (£0.16m) now funded from revenue rather than capital, continuing the successful Positive Futures programme (£0.11m) sustainably funding this from the revenue budget rather than reserves and ensuring a contact centre remains for our most vulnerable customers in West Bridgford (£0.05m);

f. It is proposed not to increase car parking charges ensuring the Council continues to support the retail sector and encourage greater footfall (Section 3.8);

g. Green waste charges are proposed to increase by £5 for both first and subsequent bins rising to £40 and £25 respectively (Section 3.8). This is less than £1 per week for what is considered an excellent service for Rushcliffe residents. Charges have not increased for 3 years and will not increase for another 3 years and take into future inflationary pressures and the need to replace vehicles that are lower in carbon emissions;

h. In support of the Council's Empty Homes Strategy and to further tackle the issue of empty homes in the Borough, it is proposed to remove the allowances for uninhabitable properties and reduce the allowance given to unfurnished properties to 28 days. This complements the decision taken last year to amend the premiums on long-term empty homes (Section 3.4);

i. Taking into account resource predictions, spending plans and savings already identified there is a Transformation Strategy requirement of £0.192m in 2020/21 and totalling £1.151m over the period of the MTFS. (Section 7);

j. The Transformation Strategy continues to roll forward with an updated programme to ensure the savings required can be achieved (Appendix 3);

k. A crucial component in having a balanced budget and ensuring services are delivered is the Council's commitment to commercial investments and the derived income. Such income is expected to rise to £2.13m over the period of the MTFS accounting for 24.7% of fees and charges income. This is continually managed and proportionate given the risks and opportunities associated with such investments (Appendix 5. Table 13).

l. The Council has a number of earmarked reserves (excluding NHB reserve), their balance rising over 5 years from £5.5m to £5.9m (Section 6). Retaining sufficient reserves is essential given the volatile financial environment we currently operate in (see risks highlighted below) along with the need to effectively deliver significant projects such as the Bingham Leisure Hub and the Crematorium.

m. Two new reserves are proposed (i) Development Corporation Reserve £0.1m (to be funded from 2019/20 in-year budget efficiencies); and (ii) Climate Change Action Reserve £1m to be transferred from the Organisational Stabilisation Reserve. Any in-year surpluses the Council may generate (as expected in 2019/20) are essential to replenish reserves given the significant opportunities and risks the Council faces and to smooth the impact of future year deficits (which are estimated to amount to £0.657m) over the next 5 years (Section 5).

n. Key risks to the MTFS are highlighted, including the potential impact of the Fair Funding Review, New Homes Bonus and the volatility caused by the aforementioned various business rates issues (Section 8);

o. The capital programme demonstrates the Council's commitment to deliver more efficient services, improve its leisure facilities, and to facilitate both economic development and housing growth. Spend over the 5 years is estimated at £34.347m (this could potentially be as high as £50m with slippage from the 2019/20 Capital Programme and all schemes subsequently delivered). It is planned to use all available Capital Receipts in the short term to fund the programme and mitigate the need to externally borrow. Capital resources are then projected to increase over the 5 year period as a result of the expected capital receipts in relation to the Overage Agreement in place for development at Sharphill. By 2024/25, such resources are estimated to be at £5.1m (Section 9). Accurate profiling of the Sharphill receipts is difficult and the timing of them will inform any borrowing requirements.

4.3 The MTFS has been developed at a time of significant financial challenge both nationally and locally. The process has been rigorous and thorough, with a Transformation Strategy (and associated programme) that takes into account both officers' and Members' views. Whilst the Council faces financial constraints both the revenue and capital budgets delicately balance the need for efficiency and economy with the desire for growth; and the aim of encouraging economic development in the borough, with the Council aiming to meet its corporate priorities.

5. Alternative options considered and reasons for rejection

5.1 There are other options in terms of increasing Council Tax by a lesser amount but this would put severe pressure on already stretched Council resources (see Section 11 of Annex B). For example comparing the difference from no increase to a £4.95 increase in council tax, in 2024/25 the council tax income foregone is £1.474m and over the 5 year period amounts to £3.444m.

6. Risk and uncertainties

6.1 Section 8 of the Annex covers key risks that may impact upon the MTFS. There is the Fair Funding review and reform of the Business Rates system in addition to a consultation on the future of NHB; all of which will have a direct impact on the income streams for the Council (the impact of which will not be known until late into 2020). Expenditure pressures include the impact climate change and carbon reduction measures. The creation of the Climate Change Action Fund should help address some of the resulting financial pressures. All of these factors make longer term forecasting subject to even more uncertainty.

7. Implications

7.1 Finance

These are detailed in the attached budget report. The Council is required to set a balanced budget for the 2020/21 financial year and the proposals present a balanced budget.

In the opinion of the S151 Officer, a positive assurance is given that the budget is balanced, robust and affordable. The Capital Programme is achievable, realistic and resourced, with funds and reserves, including the General Fund, adequate to address the risks within the budget.

7.2 Legal

To accord with the Local Government Finance Act 1992.

7.3 Equalities Implications

None.

7.4 Section 17 of the Crime and Disorder Act 1998 Implications

None.

8 Corporate Priorities

Quality of Life	Ensuring services that residents value are maintained and enhanced.
Efficient Services	Ensuring efficient use of resources and maximising returns.
Sustainable Growth	Providing resources that facilitate growth in the borough.
The Environment	Allocating resources to invest in projects that support the Council's environmental objectives.

9. Recommendations

It is RECOMMENDED that Council:

a) accepts the report of the Council's Responsible Financial Officer on the robustness of the Council's budget and the adequacy of reserves (as detailed at **Annex A**);

b) adopts the budget setting report and associated financial strategies 2020/21 to 2024/25 (**Annex B**) including the Transformation Strategy and Efficiency Statement (**Appendix 3**) to deliver efficiencies over the five year period.

c) adopts the Capital Programme as set out in **Appendix 4**.

d) adopts the Capital and Investment Strategy at **Appendix 5**.

e) sets Rushcliffe's 2020/21 Council Tax for a Band D property at £142.74 (increase from 2019/20 of £4.95 or 3.59%).

f) sets the Special Expenses for West Bridgford, Ruddington and Keyworth, **Appendix 1**, resulting in the following Band D Council tax levels for the Special Expense Areas:

i) West Bridgford £48.51 (£48.51 in 2019/20)

ii) Keyworth £3.76 (£1.60 in 2019/20)

iii) Ruddington £4.12 (£3.37 in 2019/20)

g) With regards to 2e) and 2f) sets the associated Bands in accordance with the formula in section 36(1) of the Local Government Finance Act 1992; and

h) Adopts the 2020/21 Pay Policy as detailed at **Annex B, Appendix 7.**

For more information contact:	Peter Linfield Executive Manager – Finance and Corporate Services 0115 914 8439 plinfield@rushcliffe.gov.uk
Background papers Available for Inspection:	Department for Communities and Local Government website, 2020/21 Financial settlement papers
List of Annexes and Appendices (if any):	**Annex A** Commentary of the Responsible Financial Officer **Annex B** Budget Setting Report 2020/21 **Appendix 1** Special Expenses **Appendix 2** Revenue Budget Service Summary **Appendix 3** Transformation Strategy and Efficiency Plan 2020/21 – 2024/25 **Appendix 4** Capital Programme 2020/21 – 2024/25 (including appraisals) **Appendix 5** Capital and Investment Strategy 2020/21 to 2024/25 **Appendix 6** Use of Earmarked Reserves 2020/21 **Appendix 7** Pay Policy Statement 2020/21

Annex A

Commentary of the Responsible Financial Officer

REPORT UNDER SECTION 25 OF LOCAL GOVERNMENT ACT 2003
(To be read in conjunction with the Council Budget Report and Annex B)

Purpose

The purpose of this report is to provide information on the robustness of the Council's budget and the adequacy of reserves so that Members have authoritative advice available when they take their budget and Council Tax decisions.

Background

Councils decide each year how much council tax they need to raise. The decision is based upon a budget that sets out estimates of what they plan to spend on each of their services.

The decision on the level of Council Tax is taken before the year begins and cannot be changed once set. It follows that an allowance for risks and uncertainties must be made by:-

- making prudent allowance in the budget for each of the services, and in addition;

- ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

Section 25 of the Local Government Act 2003 requires that when it's considering its financial plans for the year ahead the Council's Responsible Finance Officer reports to the Authority on the robustness of the budget and the adequacy of the reserves so that Members have authoritative advice available to them when making their decisions.

Robustness of Estimates

I am content that the Council has followed a comprehensive and detailed budget process when preparing the budget for 2020/21 which complies with both statutory requirements and best practice principles.

The Council has taken effective steps to deal with the financial pressures caused by challenging economic conditions and reductions in Council funding, particularly from central government. The Council's Transformation Strategy and Efficiency Statement are designed to meet the emerging financial challenges. The Transformation programme combined with effective financial management (resulting in previous budget savings) have ensured the Council has the capacity to use reserves, only if absolutely necessary. The use of reserves in support of on-going expenditure requirements remains a key policy decision which is addressed later in this Annex.

The Authority has responded positively to the challenges that it faces in the medium term through the development, in conjunction with a series of Member budget workshops in the past few years, of a Transformation Programme (detailed at **Annex**

B, Appendix 3) that identifies the Council's approach to meeting its saving requirement, which the Council has managed to reduce. Last year we projected a budget deficit of £0.56m for 2020/21 and due to a combination of cost control, income generation and the deferral in changes to the business rates system the Council has a balanced budget. Going forward we cannot be complacent as there are significant financial challenges that lie ahead, and these are commented on below. Over the life of the strategy there is a forecast net deficit of £0.657m and a potential use of the Organisational Stabilisation reserve. Forecasts are subject to the anticipated delivery of the Transformation Strategy and Programme.

In developing such plans, the Council has recognised that future funding and service provision is uncertain and that risks, particularly financial risks (given the prudent assumptions surrounding the outcome of the current reviews of both 75% business rates retention and the Fair Funding Reviews remain); and the outcome of the overarching Spending Review now expected in 2020, is also an unknown quantity. The MTFS aims to mitigate and manage such risks going forward. Additional challenges concern likely expenditure pressures linked to addressing climate change and the Climate Change Action Plan the Council is formulating (via Scrutiny and Cabinet).

Both the MTFS and the Transformation Strategy are iterative in their nature and will evolve over time to respond to, for example, changes in funding levels, the impact of the national economic climate and developing corporate and service objectives.

Adequacy of Reserves

Reserves are held for two main purposes:

- a working balance to help cushion the impact of uneven cash flows and unexpected events or emergencies (General Fund balance); and

- to build up funds to meet known or predicted requirements (earmarked reserves).

Whilst there is no statutory guidance on reserves, the Chartered Institute of Public Finance and Accountancy recommends that each local authority should base its decisions on professional advice from its Responsible Finance Officer and its understanding of local circumstances.

Taking into account such considerations in October 2011 the Cabinet approved as part of its MTFS, the following guiding principle:

"General Fund Balance should not fall below £1.25m and overall revenue reserves should not fall below 20% of net revenue expenditure."

This remains a prudent position which I do not recommend changing at this time. A General Fund Reserve of £2.6m and earmarked reserves of around £5.5m ensures this principle continues to be adhered to.

I have previously commented that the settlement was unprecedented in terms of the changes (both actual and proposed) to the local government 'funding envelope', and involved the 'four-year offer' which, as a Council, we accepted. The four-year settlement has ended and effectively the last 2 years we have had 1 year settlements. Uncertainty going forward makes financial planning difficult and we mitigate risk by taking a prudent approach in our assumptions. Whilst we know we no longer receive Central Government Revenue Support Grant, there is still a lack clarity on what will happen once the New Homes Bonus (NHB) scheme finishes. Further consultation is expected later in 2020. We believe this funding is particularly important to not only reward the Council with regards to delivering housing growth but also to fund the cost of increased service provision as a result of growth. We will continue to make such representations to the Ministry for Housing, Communities and Local Government (MHCLG).

There still remains uncertainty in terms of Business Rates (and the 75% localisation of business rates) and given the volatile nature of the business rates tax base, the prospective closure of Ratcliffe-on-Soar power station (given it accounts for around one fifth of the tax base), is a risk that has to be managed. The Development Corporation is a big opportunity for economic development at this site and it is proposed a new earmarked reserve of £0.1m is created to ensure the Council supports the initial business case development and plays an active role as key decisions are taken for the benefit of the local community. Whilst the Council has forecast an increase in business rates in 2020/21 the anticipated systemic changes to the funding system means the Council has taken a prudent approach in its Business Rates income assumptions assuming a 100% reset and therefore a loss in business rates growth in 2021/22 (from £3.99m to £3.05m). The Council will look to continue to support local businesses, applying central government policy with regards to business rates relief, this remains another challenge with regards to the viability of the whole business rate system. Furthermore the Council is proposing not to increase car parking charges in 2020/21 to help ensure Rushcliffe has the environment for businesses to thrive.

Excluding NHB the Council's reserves are due to rise moderately over the five years from £5.5m to £5.9m. It is important the Council retains its level of reserves given that there are heightened risks with regards to the future funding of local government and the challenges that addressing climate change brings. To assist with the carbon reduction challenge a £1m earmarked Climate Change Action Fund Reserve is to be created (transferred from the Organisation Stabilisation Reserve).

There is also the 'Fair Funding' review of local government finance (deferred by a further year until 2020) which will determine how, with what is a smaller cake, the funding allocation is divided within the sector. The amount of Council Tax raised will, to a large extent, be dependent on the realisation of our Local Plan housing targets. The ultimate intention is to realise opportunities for growth in the Borough, in both the business and housing sectors, as the Council aims to deliver excellent value for money for the community. The Council continues to leverage in external funding such as from the Local Enterprise Partnership and will need to understand and maximise opportunities that may arise in the post BREXIT era. **Annex B, Section 8** highlights key risks with regards to the MTFS.

As detailed at **Annex B, Section 6,** the MTFS which supports this budget is predicated upon use of reserves (particularly the New Homes Bonus Reserve) to support service expenditure and to deliver investment across the Borough. The Council remains committed to 'grow the Borough'. As a result of housing growth the level of NHB received has increased from £1.6m (2019/20) to £2.3m (2020/21) although the end of the current scheme and no further funding by 2023/24 leads to a budget pressure which this Strategy addresses with the use of the remainder of the

NHB reserve to fund its Minimum Revenue Provision (MRP) commitment (**Section 3.7 of Annex B**) over the life of this MTFS.

The Council has an ambitious capital programme to deliver its corporate objectives and anticipates additional borrowing (of £10m during the lifetime of the MTFS) particularly to be utilised in relation to the Bingham leisure hub and crematorium projects. In previous budget reports I have commented upon £10m being committed to fund the Arena project. There is sufficient NHB reserve to fund the outstanding balance of £6m, from the original £10m commitment for the Arena and the additional interest and principal repayments in relation to the additional borrowing in this strategy. The NHB scheme is subject to review as part of the Fair Funding review, the Council continues to lobby government to ensure that housing growth is properly rewarded and the increase in demand for services is appropriately funded. This is important given we are expecting even more housing growth within the Borough in the next few years.

As well as ongoing funding pressures the Council's cost base has increased to ensure corporate objectives are met. For example, the increase in the replacement bins budget and funding the Positive Futures programme from the revenue budget rather than reserves,. Even so Rushcliffe has maintained a stable financial base and, as a result, even once such demands have been met overall revenue reserves (excluding retained New Homes Bonus) are planned to remain at a stable level over the period of the MTFS. Undoubtedly capital demands both those identified now as well as future requirements beyond the life of the MTFS will put pressure on such balances in the future and going forward. 'Headroom' within the revenue budget will need to be created to fund the capital programme in the long term unless other capital funding streams are identified. Such issues will be considered as the MTFS perennially evolves. As such the MTFS represents a balanced approach to meeting the financial challenges that face the Authority.

In the past I have reported on the worsening position of the Council's pensions' fund, arising from the triennial review and the budget pressure this created. This year there has been a further triennial review and whilst the employers' contribution rate has increased from 14.6% to 17.6% the historic pension deficit position has reduced (helped by prudent decisions taken 3 years ago to increase the back-funded payment element)- see **Annex B, paragraph 2.1**. This has led to a minor saving against the budget position over the next 3 years (£73k or 1.15%). Working with Nottinghamshire County Council and the pension fund actuary (Barnett Waddingham) we continue to remain vigilant regarding this risk.

The delivery of the Transformation Strategy is critical in ensuring the Council retains a stable MTFS. The Council's focus remains on 'growing the Borough' and ensuring it remains a great place to live. Examples in the Capital Programme include the further development of Gresham sport pitches, the proposed crematorium and the Bingham Leisure Hub. The Council is not planning on extending its Asset Investment fund beyond £20m and will focus on investments within the Borough. Commercial property investment still remains an important part of the Council's armoury in generating income returns and delivering employment and economic development across the Borough. The governance and management of such investments both individually and collectively (against the Council's overall investment portfolio) the Capital and Investment Strategy refers (**Annex B, Appendix 5, Table 13**). This identifies £1.5m in gross income being generated from commercial investments expected to rise to £2.1m by 2024/25. The key point is that the Council has a range of such income streams and is not overly reliant on one source of income. It manages such risks proportionately and sensibly with investment income accounting for around 20% of fees and charges income.

The Council now considers itself to be self-sufficient, no longer in receipt of Revenue Support Grant. Several years ago the Council relied on a £300k annual commitment from the Organisation Stabilisation Reserve to support the budget, this is no longer the case. The budget is financed from Council Tax, Business Rates and rents, fees and charges. In terms of financial resilience, which CIPFA are increasingly focusing upon given the financial challenges the local government sector faces, I am not complacent regarding the Council's position. I remain confident in the ability of the Council to deliver its corporate priorities and continue to be financially self-sustainable.

Previous achievements with regards to the four-year plan and the Transformation Strategy provide reassurance that the budget requirement will be met in a sustainable manner.

In conclusion, therefore, it is my opinion that the budget proposed in this report, and the sundry strategies which support it, are properly developed and provide an appropriate approach for meeting the financial challenges and funding risks facing the Authority at this time.

Peter Linfield
Executive Manager – Finance and Corporate Services (and Section 151 Officer)
February 2020