Report to:	**Cabinet**
Date:	**10 February 2020**
Title:	**General Fund Revenue Budget 2020/21 and Capital Programme**
Report of:	**Chief Finance Officer**
Cabinet member:	**Councillor Zoe Nicholson, Leader of Council, Cabinet Member for Finance**
Ward(s):	**All**
Purpose of report:	**To agree the updated General Fund budget and updated MTFS, together with the updated Capital Programme position.**
Decision type:	**Budget and policy framework**
Officer recommendation(s):	**Members are asked to recommend the following proposals to Full Council:**

i) The General Fund budget for 2019/20 (Revised) and 2020/21 (original) Appendix 1 including growth and savings proposals for 2020/21 as set out in Appendix 3.

ii) An increase in the Council Tax for Lewes District Council of £5 resulting in a Band D charge for general expenses of £192.08 for 2020/21

iii) The revised General Fund capital programme 2020/21 revised as set out in Appendix 5.

iv) To note the section 151 Officer's sign off as outlined in the report.

Reasons for recommendations:	**The Cabinet has to recommend to Full Council the setting of a revenue budget and associated council tax for the forthcoming financial year by law.**
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1. Background

1.1 The Council published its draft Medium-Term Financial Strategy (MTFS) for 2019/20 to 2023/24 in July 2019. This is a key document, which demonstrates alignment with the Council Corporate Plan, and how the Council plans to target its financial resources in line with its key priorities and stated aims and objectives.

1.2 The MTFS included a set of financial assumptions and forecasts up to the financial year 2023/24, based on the most up to date information available at the time.

1.3 This report presents the updated forecast financial position for 2020/21, taking into account the capital strategy and programme approved by Council in February 2019, budget changes identified since the publication of the MTFS and the latest intelligence regarding the 2020/21 local government funding settlement following the Comprehensive Spending Review announcement on 19th December 2019.

2. Key Factors

Comprehensive Spending Review 2019

2.1 Local government in general and district councils in particular continue to operate within a severely challenging financial environment. There have been three Comprehensive Spending Reviews since 2010, each of which has had an impact upon local government's strategic financing:

- **Spending Review 2010:** published in October 2010, established the initial path of reductions to local government grant funding and the introduction of Council Tax Freeze grant. At the same time as the SR10 took effect, New Homes Bonus was launched for the period of the SR.
- **Spending Review 2013:** published in June 2013, continued with the reductions to local government grant funding; the rolling forward of the Council Tax Freeze grant; and the introduction of the Better Care Fund.
- **Spending Review 2015:** published in November 2015, again continued with reductions to local government grant funding; introduced reforms to New Homes Bonus; ended Council Tax Freeze grant, set council tax referendum limits at 2% per annum or £5 for District Councils (whichever was higher); and introduced the Social Care Precept at 2% per annum.

In 2019/20, additional one-off funding was provided for social care and council tax referendum limits were increased to 3%.

As a result of these changes to the local government financial system the Council no longer receives central Government funding in the form of Revenue Support Grant (RSG).

2.2 **The Local Government Finance Settlement** for 2018/19 announced that by 2020/21 local Councils will retain 75% of business rate revenues. However, the timetable for introducing these changes has now been pushed back to 2021/22 and the Government are yet to publish detailed proposals. For the purposes of the Medium-Term Financial Strategy the minimum baseline has been assumed, which would be the worse case scenario. In addition, no transitional funding arrangements have been factored into the projections.

Economic Outlook

On 16 December 2019, the Office for Budget Responsibility (OBR) published its restated March 2019 economic and fiscal outlook.

The economy ended 2018 growing a little less strongly than expected in October. Survey indicators of current activity have weakened materially, in part reflecting heightened uncertainty prior to the General Election related to Brexit. As a result, the OBR has revised their forecast for Gross Domestic Product (GDP) growth this year down to 1.2% – more than reversing the upward revision they made in October in response to the Government's discretionary fiscal loosening in the Budget. They have not altered their assessment of the outlook for potential output, so the medium-term forecast is little changed: GDP growth still settles down to around 1.5% a year.

They now expect public sector net borrowing to come in at £22.8 billion (1.1% of GDP) this year, down £2.7 billion since October thanks primarily to higher income tax receipts and lower debt interest spending. By 2023/24 the improvement since that October estimate is £6.3 billion, again thanks primarily to higher income tax receipts and lower debt interest spending.

These downward pressures on borrowing are partially offset by the £2.1 billion net cost of 20 policy decisions announced since the Budget – notably the £1.7 billion of additional planned public services spending announced at the Spring Statement. This leaves the expected deficit in 2023/24 at £13.5 billion (0.5% of GDP).

Consumer Price Index (CPI) inflation was above the 2% target throughout 2018, averaging 2.5%. In the fourth quarter of 2018 it had fallen back to 2.3%. CPI inflation fell further in January 2019 to 1.8%, largely reflecting lower gas, electricity and petrol price changes. This was the first time in two years that inflation was below the 2% target. The OBR has revised down their forecast for CPI inflation since October, dipping to 1.9% in 2020, returning to the 2% target thereafter. They have made a larger downward revision to RPI inflation due to the much weaker outlook for house prices in 2019 and 2020.

2.3 On 4 September 2019 the Chancellor delivered his 2019 Spending Round. The key points that are relevant to Local Government are as follows:

a) Confirmation that the Fair Funding Review, Business Rates Review and business rates reset has been deferred by 12 months to 2021/22.

b) £2.9 billion increase in Core Spending power overall. Most of the additional funding is for adults' and children's services, but there is £54m for Homelessness.

c) Funding to remove negative RSG has been continued for 2020/21.

d) 75% business rates pilots will come to an end and there are no new pilots planned for 2020/21.

e) £40m additional funding for Discretionary Housing Payments.

f) £23m to fund a range of measures around Universal Credit – whilst this won't come to districts it will be a positive support for people in the area.

g) Continuation of the Discover England Fund to promote inbound tourism.

h) £241m in 2020/21 in the Towns Fund to regenerate high streets, town centres and local economies.

i) Additional £30m for the Business, Energy, & Industrial Strategy (BEIS) to accelerate the development of decarbonisation schemes.

3. Provisional Finance Settlement

3.1 The Provisional Finance Settlement was announced on the 20 December 2019, whilst there is additional funding from Central Government this has been prioritised for adult and children's social care.

The settlement provides no update on the progress of either the move to further business rates retention or the Review of Relative Needs and Resources (commonly called the Fair Funding Review). However, the settlement confirmed that the next business rates revaluation is planned for 2021 and from then on, the Government intends to move to a three-yearly revaluation cycle.

The headlines are as follows;

a) No change to the New Homes Bonus threshold of 0.4%. The 2020/21 element of NHB will be paid for one year only. The legacy payments of the bonus in respect of growth in 2019/20 and previous years will continue to be paid in 2020/21. The Government will consult on the future of the housing incentive in the Spring. The Written Ministerial Statement says this will include moving to a new, more targeted approach which is aligned with other measures around planning performance and confirmed that the payments will be phased out;

b) The Rural Services Delivery Grant will remain unchanged at £81 million in 2020/21. The Government is minded to retain the current method of distributing the grant but will consult on this;

c) Business rates baseline will rise in line with inflation;

d) £400m compensation for under-indexing the business rates multiplier will be distributed to all councils, The Council's share of this will be confirmed later in the process;

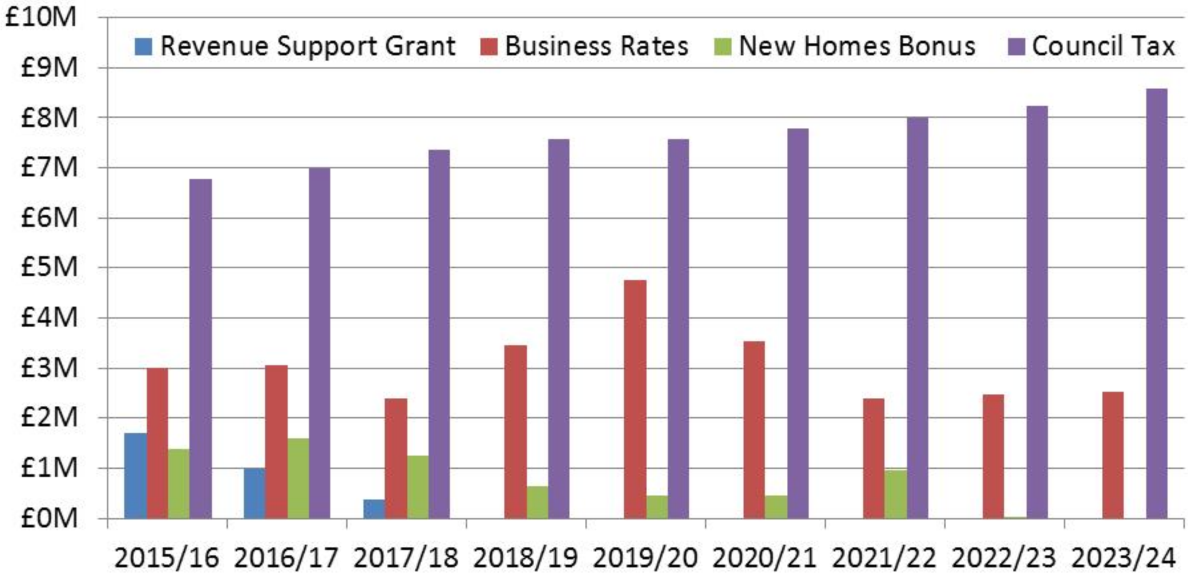
e) Continuation of the option for shire districts with the lowest council tax levels to increase council tax by the higher of 2% or £5. The Government will continue with its policy of not setting referendum limits for parish and town councils, which they will keep under review for future years.

The impact of above funding streams in the Council's budget and MTFS are summarised and included in the table below:

Table 1: Provisional Finance Settlement and Other Funding Resources

	2019/20 £m	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
Business Rates	4.951	3.288	2.407	2.471	2.536
Business Rates – Pool	-	0.250	-	-	-
Business Rates - Surplus	0.090	-	-	-	-
New Homes Bonus	0.457	0.464	0.068	0.016	-
Council Tax	7.519	7.713	8.000	8.289	8.588
Council Tax - Surplus	0.059	0.083	-	-	-
Other Government Grants	0.382	0.344	0.309	0.278	0.251
Total Resources	**13.458**	**12.142**	**10.784**	**11.054**	**11.375**

Chart 1: Funding Resources



Note the above includes annual surpluses and deficits relating to business rates and council tax. As previously mentioned, forecasts for business rates from 2021/22 onwards are modelled on a worse case scenario with no transitional funding arrangements.

4. Council Tax

4.1 The aggregate Band D council requirement comprises two elements:

- Special Expenses in respect of the cost of managing and maintaining parks and open spaces. The cost of each site is charged to the council taxpayers of that part of the district area in which it is located.

- General Expenses, all other costs.

4.2 The Council has made a commitment to passing on changes in the cost of the upkeep of open spaces. Special Expenses amounts are shown in the table below:

Table 2: Special Expenses

Town/Parish Area	Special Expenses 2020/21 £	Band D 2020/21 £	Special Expenses 2019/20 £	Band D 2019/20 £
Lewes	344,430	56.12	334,370	54.31
Newhaven	134,940	36.53	155,620	43.60
Telscombe	57,720	22.78	53,400	20.61
Seaford	58,590	6.17	54,760	5.64
Peacehaven	41,100	8.56	37,930	7.85
Chailey	1,120	0.86	1,070	0.82
Ringmer	4,410	2.35	4,180	2.19
TOTAL SPECIAL EXPENSES	**642,310**	**17.45**	**641,330**	**17.45**

4.3 For 2020/21 three sites have been devolved:

- Holly Croft play area, Lewes
- Valley Road Estate play area, Newhaven
- Eastside recreation area, Newhaven

Applying a £5 increase to the General Expenses element of the Council Tax gives a Band D tax amount of £192.08 as shown in the table below:

Table 3: Council Tax

	2019/20 £	2020/21 £	Change £	Change %
Band D				
Special Expenses	17.45	17.45	0.00	0.0%
General Expenses	187.08	192.08	5.00	2.7%
Total	**204.53**	**209.53**	**5.00**	**2.4%**

The Council has to give an indication of likely future council tax rises, it is still

4.4 expected that council tax will rise in line by inflation 2% to 3% per annum for each of the next three years. This is within the Government's target for inflation (1-3%) and the also current ceiling on rises that would otherwise require a referendum.

Within this context, for 2020/21, the Council will raise £7.7M from its share of the council tax. This is determined by multiplying the council tax base of Band D equivalent dwellings by the Band d tax rate of £209.53 per annum.

5. 2018/19 Financial Outturn

5.1 The Council achieved a balanced revenue outturn position for 2018/19 after the flexible use of capital receipts, benefiting from reallocation of £1.1M grant funding and planned used of reserve £1.2M. However, this position masked a number of significant pressures – notably are the significant cost of temporary and emergency accommodation and the impact of economic slowdown on commercial income and business rate.

Table 4: 2018/19 Outturn Variances

Analysis of Major Variances	**£000**
Service Priorities/Contingency - (to mitigate against loss of commercial income & increase in demand for services – including EA/TA)	(486)
Profiling of savings to meet additional demand for services	188
Waste and Recycling – Loss of recycling credits and fuel costs	132
Information Technology – Additional IT Contract cost	95
Planning Policy – Play Strategy, National Park Habitat regs	72
Newhaven Fort – Remedial works	52
	53

6. 2019/20 Revised Budget

6.1 As part of the budget setting process and subject to approval, 2019/20 estimates will be adjusted to address structural imbalance in some operational budgets (largely relating to non-achievement of income and increased demand for housing need services). Healthy income from the chargeable garden waste service contributed to a more robust revenue budget position. However, some areas of the Council's revenue budget remain under pressure and will require careful monitoring.

6.2 Like most authorities, the Council is faced with a requirement to live within its means and improve and transform services whilst still operating in an environment of Government resource constraints and uncertainty about future funding prospects.

Table 5: 2019/20 Major Movements

Analysis of Major Movements	£000
Estates/Corporate Landlord - Additional running costs / reduced rental income	567
Planning – increased staffing costs	205
Specialist Services – increased Housing Benefit costs	506
Homes First – additional housing costs	192
Reallocation of additional funding	(240)
Tourism & Enterprise – net additional operation costs	174
Increased service provision to HRA re delivery of 30-year Business Plan	(300)
Reduced investment interest	150
Other service wide changes	(105)
Initial Budget Gap	**1,149**
Use of Contingency	(1,300)
Additional Efficiency Savings	(114)
Corporate Landlord – Additional Income	(98)
Contribution to Reserves	664
Revised Budget Gap	**301**

6.3 The table shows an initial budget gap of £1.149M with key variances relating to additional corporate landlord costs and increased Housing Benefit costs. However, these have been managed through the partial use of the contingency budget which was established to cover off the impact of an economic slowdown and any potential increases in demand for services, such as housing.

The forecast variances were identified as part of the Qtr2 monitoring process and further details are contained in Appendix 2.

7. Medium Term Financial Position

7.1 The MTFS sets out the Council's four-year spending and funding plans, and is the financial framework for the development of the detailed 2020/21 budget.

The latest MTFS, as approved by Cabinet on 01 July 2019, forecast budget gaps in each of the next four financial years as follows:

Table 6: Previous MTFS Forecasts

	2020/21 £000	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**
Budget Forecast	12,377	11,425	11,232	11,203
External Funding	(10,857)	(10,689)	(10,650)	(10,635)
Annual Budget Gap	**1,520**	**736**	**582**	**568**
Cumulative Budget Gap	**1,520**	**2,256**	**2,838**	**3,406**

7.2

The MTFS has been updated with the latest forecast position. This incorporates the on-going impact of any pressures and mitigations identified in the first quarter's budget monitoring from 2019/20 and newly identified budget pressures. The forecast budget gap for 2020/21 has increased to £4.173M, largely due to the impact of continuing housing demand, economic uncertainty and reduction on some key income streams.

A summary of the revised position, including the updated savings requirement, is shown in following sections.

Table 7: Summary of Revised MTFS Position

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Adjusted Base Budget	14,607	14,607	13,169	14,267	15,075
Additional budget pressure		1,708	1,098	808	818
Initial Budget Forecast	**14,607**	**16,315**	**14,267**	**15,075**	**15,893**
External Funding	(13,458)	(12,142)	(10,784)	(11,054)	(11,376)
Initial Budget Gap	**1,149**	**4,173**	**3,483**	**4,021**	**4,517**
Use of Contingency – Housing need	(1,300)	(1,600)			
Additional Efficiency Savings	(114)	(1,005)			
Additional Income – Corp Landlord	(98)	(300)			
Insurance Renewal Savings		(100)			
Actuarial Contribution		(100)	(100)	(100)	(100)
Growth – non-recurring		201			
Balance to / (from) Planned use of Reserves	664	(1,569)			
Cumulative Budget Gap	**301**	**(300)**	**3,383**	**3,921**	**4,417**

The forecast budget gaps from 2021/22 onwards are worse case scenarios taking on board the minimum baseline being used for business rates income and assumptions that the on-going impact of additional housing costs will continue.

To mitigate against these gaps, the Council will be reviewing its asset base to optimise asset use, making them work better for our communities, or to generate additional capital receipts. In addition, it will look to become more commercial and look for further rationalisation opportunities without reducing service provision.

Further papers will be developed and submitted to Cabinet in due course.

8. Financial Planning Cycle

8.1 A typical financial planning cycle for a local authority is a continual process of review and challenge of future years' budget assumptions over a medium-term horizon. This is based on performance against the current year's budget, incorporating the costs and benefits of business change and responding to political and economic factors within the external environment.

Following the publication of this report, work will continue to further validate and monitor delivery against all of the key budget assumptions for 2020/21 and beyond.

Since the publication of the MTFS in July, the Council has reviewed its 2020/21 budget following consideration of the following areas:

- Priority objectives and service plan delivery;
- Planned business change and opportunities for increased value for money;
- Current levels of service demand and performance against budget; and
- The statutory environment that each directorate operates in.

8.2 The key financial assumptions within the MTFS have been refreshed to include the impact of:

- The capital strategy and rolling capital programme approved by Council in February 2019;
- Demographic and service demand pressures, which have been reviewed based on the latest national and local trends and management information available.
- Expenditure and income inflation indices, which have been reviewed using the latest economic data and contract information.
- An assessment of changes to government grants and funding;
- The Council's operational and financial performance in 2018/19 and 2019/20 with due regard given to the on-going impacts in 2020/21
- Validation of MTFS savings proposals.

Full details of the updated financial assumptions are contained within Appendix 4.

9. Capital Programme

9.1 As part of the budget setting process, the Council is required to agree a programme of capital expenditure for the coming four years. The capital programme plays an important part in the delivery of the Council's Corporate Plan and Medium-Term Financial Strategy (MTFS), which in turn supports wider service delivery.

Capital expenditure within the Council is split into two main components, the General Fund Capital Programme and the Housing Revenue Account (HRA) Capital Programme.

9.2 Capital programme recognises the spending limitations within the Finance Settlement for 2020/21 on the resources available. Therefore, the programme prioritises delivery to incorporate those projects that are either a statutory requirement or are essential to delivery of the Council's Corporate Plan. The programme includes schemes where the Council has been successful in securing funding from external grants and contributions, and schemes where the Council is pro-actively working with external bodies to secure funding. For these schemes to go ahead it is important that the funding is secured.

The programme has been compiled taking account of the following main principles, to:

- maintain an affordable four-year rolling capital programme;
- ensure capital resources are aligned with the Council's Corporate Plan,
- maximise available resources by actively seeking external funding and disposal of surplus assets; and
- not to anticipate receipts from disposals until they are realised.

The current economic climate also places further emphasis on ensuring that the levels of capital receipts are maximised through improved asset management and through the sale of surplus and underused assets. The Council recognises disposal of its surplus assets key to its overall financing of capital investment and at the same time reduced the demand on the revenue costs of capital.

9.3 Capital Funding Sources - The capital investment proposals contained within this MTFS rely upon an overall funding envelope made up of several sources, including borrowing, capital receipts, capital grants and revenue contributions.

Borrowing - The local Government Act 2003 gave local authorities the ability to borrow for capital expenditure provided that such borrowing was affordable, prudent and sustainable over the medium term. The Council must complete a range of calculations (Prudential Indicators) as part of its annual budget setting process to evidence this. These make sure that the cost of paying for interest charges and repayment of principal by a minimum revenue payment (MRP) each year is considered when drafting the Budget and Medium-Term Financial Strategy. Over the course of this MTFS, prudential borrowing of £37.2M has been assumed for the General Fund Capital Programme.

The Council's external authorised borrowing limit for 2020/21 is set at £132m with a General Fund limit of £75.3m and no external borrowing as at 31 March 2020. The 2020/21 borrowing is estimated as £27.1m. The HRA has no borrowing limit/cap as it takes its income from rents and services charges collected from tenants, and spends this money exclusively on building and maintaining housing. Councils are able to borrow money within their HRAs in order to build more homes to provide more income, or even to refurbish or regenerate existing homes. The 2020/21 HRA borrowing is estimated as £58.3m.

Capital Receipts - These are generated when a non-current asset is sold, and the receipt is more than £10K. Capital receipts can only be used to fund capital expenditure or repay borrowing. In determining the overall affordability of its capital programme, the Council is taking a prudent approach of not including anticipated capital receipts as a source of funding in the programme until such a time when the income is received and realised.

9.4 Capital Grant - The Council receives additional grant funding for a variety of purposes and from a range of sources. These include the Ministry of Housing, Communities and Local Government (MHCLG) funding for Disabled Facility Grants and Environment Agency funding for Coastal Management projects.

9.5 Revenue Contributions - Although the Council can use its General Fund to pay for capital expenditure, as it has done in the past, the current financial constraints that are on the Revenue Budget means that this option is limited in the medium term.

9.6 General Fund Capital Reserves - Capital Short Life Asset Reserve – It is anticipated that this reserve will continue to fund assets with a life of less than 10 years, primarily being IT equipment and vehicles purchases.

9.7 HRA Right to Buy (RTB) Capital Receipts – The Right to Buy scheme helps eligible council tenants to buy their home with a discount of up to £84,200 (2020/21). The Council receives the sale proceeds of the Council House.

9.8 HRA Other Capital Receipts - These are generated when a fixed asset is sold, and the receipt is more than £10k. Capital receipts can only be used to fund capital expenditure.

9.9 HRA Contributions – Funding for capital expenditure on housing can be met from within the HRA. The future funding requirements will be informed by the Council's newly revised 30-year HRA business plan.

9.10 HRA Capital Reserves – Although the HRA subsidy system has ceased to exist, transitional arrangements allow the Council to continue to place the Major Repairs Allowance, as detailed in the settlement determination, in the Major Repairs Reserve. This is exclusively available for use on HRA capital expenditure.

10. Financial Appraisal

10.1 The S151 Officer will submit her Section 25 report on the robustness of estimates and adequacy of reserves in February 2019.

11. Legal implications

11.1 Section 151 of the Local Government Act 1972 requires that every local authority make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.

11.2 Sections 32 and 43 of the Local Government Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement.

11.3 The Chief Finance Officer, appointed under section 151 mentioned above, has a duty to report on the robustness of estimates and adequacy of reserves under section 25 of the Local Government Act 2003.

12. Risk Management implications.

12.1 Appendix 6 provides an analysis of risks associated with the MTFS and mitigating actions

13. Equality analysis

13.1 The equality implications of any individual decisions relating to the projects/services covered in this report are addressed within other relevant Council reports.

14. Conclusion

14.1 The Council faces considerable financial challenges in the medium term, primarily relating to changes and uncertainty in both public finances and the wider economic environment.

15. Appendices

- Appendix 1 - General Fund Budget Summary
- Appendix 2 – Qtr2 Monitoring.
- Appendix 3 – Savings and Growth Proposals
- Appendix 4 – MTFS Assumptions
- Appendix 5 – Capital Programme
- Appendix 6 – Risks

16. Background papers

The background papers used in compiling this report were as follows:

- Provisional Local Government Finance Settlement 2020/21