

## REPORT TO THE EXECUTIVE



<b>DATE</b>	<b>11th February 2019</b>
<b>PORTFOLIO</b>	<b>Resources &amp; Performance Management</b>
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### Revenue Budget 2019/20

#### PURPOSE

1. To consider the estimates of revenue income and expenditure for 2019/20 and to make recommendations to full Council about next year's Revenue Budget.

#### RECOMMENDATION

2. The Executive is recommended to adopt the following resolution:

That full Council be recommended to:

- i) Endorse the approach that has been adopted in developing budget proposals that reflect the Council's Strategic Objectives for 2019/20;
- ii) Approve the proposals contained in this report;
- iii) Set a Council Tax Requirement of £6,962,402 for the financial year 2019/20;
- iv) Set a Net Budget Requirement of £15,814,610 for 2019/20;
- v) Receive and consider the statutory report issued by the Head of Finance and Property under the Local Government Act, 2003;
- vi) Authorise the Chief Operating Officer/Heads of Service to progress action plans to deliver the 2019/20 budget;
- vii) Approve a Council Tax (Band D) figure of £300.22 for this Council for the year commencing 1<sup>st</sup> April 2019 and adopt the statutory resolution to set the full Council Tax for the year. This is equivalent to a 2.99% Council tax increase.
- viii) Increase the additional Council Tax premium from 2019/20 onwards for properties that have been empty for over 2 years, from 50% to 100%. This will mean paying 200% Council Tax for these properties.

## REASONS FOR RECOMMENDATION

3. To fulfil the Council's statutory obligation to calculate its Council Tax requirement as set out in Section 31A of the Local Government Act 1992 (as amended by section 74 of the Localism Act 2011).
4. To set a balanced budget for the financial year 2019/20 that ensures the viability of the Council and aligns resources to the Council's strategic priorities.
5. To bring empty homes back into use in line with the Council's strategic commitment.

## SUMMARY OF KEY POINTS

### **BACKGROUND**

6. This report summarises the key issues that elected Members will need to consider when finalising the Revenue Budget 2019/20. Under the constitution it is the Executive's duty to present detailed recommendations for Full Council to consider. The following appendices are related to the report.

Appendix 1	General Fund Revenue Summary 2019/20
Appendix 2	Growth
Appendix 3	Further Savings/Additional Funding Requirements
Appendix 4	Equality Impact Assessment

7. The schedule of proposed fees & charges, which forms an integral part of the budget process, was approved at the meeting of full Council on 19<sup>th</sup> December 2018.
8. The proposals contained within this report have been developed as a result of discussions and presentations at various Member and officer forums.
9. The Local Government Act 2003 sets out the requirements for sound financial management. Section 25 is particularly relevant when the budget and Council Tax for the coming year are being set. It requires the Chief Financial Officer to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. This report is contained elsewhere on your agenda.
10. This budget has been developed following the principles set out in the Council's Medium Term Financial Strategy. The strategy emphasises the need to focus on the use of the Council's resources towards achieving the Council's stated objectives.
11. The Council has adopted an approach to producing the budget based upon the relative priority of all the services. However, at the heart of the Council's financial planning is a savings plan aligned to strategic intent.
12. In view of the tight financial constraints within which the Council has operated in recent years, there is little scope for growth in service provision. Appendix 2 shows further limited growth proposals.

## **SUMMARY OF THE REVENUE BUDGET POSITION 2019/20**

13. The proposed net revenue budget for 2019/20 is as set out in the table below:

	£'000	£'000
Net Revenue budget - original 2018/19		15,090
Spending pressures reported September 2018	532	
Savings approved September 2018	<u>(901)</u>	(369)
Proposed Growth - Appendix 2		4
Further spending pressures (Corporate items) 2019/20		64
Transfer to Business Rates Volatility Reserve		1,058
Transfer to Revenue Support Reserve		100
Further savings proposed - Appendix 3		(133)
Net Budget requirement		<b><u>15,814</u></b>
Financed from:		
<u>Government Settlement Funding Assessment</u>		
Business rates baseline *		5,810
New Homes Bonus		607
Council Tax Yield		6,962
<u>Business Rates in addition to Baseline Funding</u>		
Additional business rates above baseline	2,228	
Renewable energy	<u>239</u>	2,467
Collection fund deficit - Burnley share		(32)
		<b><u>15,814</u></b>

\* For 2019/20 only the Revenue Support Grant is incorporated into the Business Rates Baseline

## **Recap on Budget decisions taken September 2018**

14. Members at Executive and Council in September 2018 approved budget savings of £901k for 2019/20, following receipt of the initial budget report that outlined a savings requirement of £1,028k. The information presented to Members at that time is shown below:

### **Position Approved September 2018:**

		£'000
<b><u>Net Spending Increases/(Decreases)</u></b>		
Pay awards and increments		209
General inflation		313
Pensions Costs		60
Cost share agreement		-
Strategic Partnership - Additional Income		-
Reversal of one-off growth 2018/19		(39)
Borrowing costs & MRP		-
Other net continuation budget changes		-
Fees and charges increases		(39)
Growth		28
		<hr/> 532
<b><u>Net Funding (Increases)/Decreases</u></b>		
Revenue Support Grant	614	
Business Rates	(132)	
New Homes Bonus	147	
Council Tax - indicative 1.9% increase	<hr/> (133)	496
<b><u>Savings and Funding Increases</u></b>		
Net savings		(901)
<b><u>Contribution to Earmarked Reserves</u></b>		
<b>Budget Gap Remaining - September 2018</b>		<hr/> <b>127</b> <hr/>

## **LOCAL GOVERNMENT SETTLEMENT**

15. **Spending Power**  
For 2016/17 onwards, the calculation of Spending Power only includes Revenue Support Grant, Business Rates, New Homes Bonus and Council Tax. The Council's Spending Power will reduce by 0.5% in 2019/20 (3.5% in 2018/19).
16. **Settlement Funding Assessment (SFA)**  
SFA is set by the Government and comprises Revenue Support Grant (RSG - the general grant funding to local authorities) and the Baseline Funding Level for business rates income. It was estimated in the September Council report that RSG would reduce by 27.6% which was confirmed in the provisional settlement figure for 2019/20. However, as Burnley is part of the Lancashire Business Rates Pilot pool in 2019/20, RSG is now incorporated into Business Rates Baseline funding for 2019/20 rather than received as a separate grant.

17. New Homes Bonus

In the 2017/18 finance settlement the Government reduced the funding period for NHB from six years to five years in 2017/18 and then to four years in 2018/19 onwards for existing and new awards commencing in 2017/18 which will accelerate the rate at which this grant reduces.

18. In addition, from 2017/18 the Government set a baseline for housing growth of 0.4% of a Council's existing taxbase below which no NHB grant is payable. The baseline has remained at 0.4% for 2019/20.

**FURTHER BUDGET PRESSURES AND SAVINGS IDENTIFIED**

19. Further budget pressures and savings have, as is usual, been identified since the September Council meeting and the announcement of the local government finance settlement for 2019/20. Appendix 3 shows the residual budget gap as at September 2018 and the identified additional pressures and savings to balance the 2019/20 budget.

**GROWTH PROPOSALS**

20. Given the continuing and sustained budget pressures being faced, there is very little scope for continuing growth unless the Council's priorities demand new spending in key areas. A balanced approach needs to be taken to ensure priority issues are achieved.
21. Consequently, only one item of revenue budget growth is included within the proposals for 2019/20. The growth item is shown in Appendix 2 for information and has been included within the revenue budget for 2019/20.

**COUNCIL TAX**

22. The proposals in this paper assume that the Council's Band D Council tax will increase by 2.99% from the 2018/19 level of £291.50 to £300.22. This level of charge will yield an estimated total income of £6,962,402.
23. Guidance has been received from central government on the criteria for Council tax increases that would trigger a local referendum. This guidance indicates that "if an authority's relevant basic amount of council tax is excessive a referendum must be held in relation to that amount". For 2019/20, the relevant basic amount of council tax of a shire district Council is excessive if the authority's relevant basic amount of council tax for 2019/20 is 3%, or more than 3%, greater than its relevant basic amount of council tax for 2018/19.

**COUNCIL TAX PREMIUM**

24. Under government proposals that came into force for 2012/13, designed to get long term empty properties back into use, the Council chose to apply a 50% empty homes premium to properties empty and unfurnished for over two years. This meant that the owner would need to pay 150% of the annual Council Tax charge. Updated Government proposals give the freedom to Councils to extend this to 100% from 2019/20, meaning the owner would need to pay 200%, which is the recommendation of this report.

25. A forecast for the increased charges collectable by increasing the premium is £325k for 2019/20. However, of this Burnley's share would £47k. Although it should be noted that the collection rate significantly reduces for properties with Council Tax premiums applied (75% in 2017/18 compared to a general 95% target) and further premiums are expected to decrease the collection rate even more. However, the utilisation of the premium is intended to bring empty homes back into use rather than generate revenue.
26. Government have also given further discretion to Councils from 2020/21 (200% premium for properties empty for 5 – 10 years) and 2021/22 (300% premium for properties empty for 10 years plus). However, these proposals will be considered in due course in conjunction with an impact assessment on properties brought back into use through use of premiums.

## **BUSINESS RATES**

27. The expected amount of business rates to assist in funding the Council's spending next year is included as part of the Government's 2019/20 funding settlement. The figure announced is £5.180m. The table at paragraph 12 above shows that it is expected that the Council will receive Business Rates in excess of the announced figure – an extra £2.228m. This is an increase of £1.058m over the amount expected in 2019/20 and will be transferred to the Business Rates Volatility Reserve.
28. The indicative figure from the Government for business rates relates to the system of business rates retention involving a distribution of rates collected to the Council, the County Council, the Combined Fire Authority and Central Government. Some elements of business rates are however fully credited to this Council. One element of business rates which falls within this category is sustainable energy. A sum of £239k is estimated to be receivable next year in respect of sustainable energy business rates which are a significant factor in balancing the revenue budget in 2019/20 and future years. This represents an increase of £4k over the amount expected in 2018/19.
29. Any excess Business Rates are subject to a Government levy which substantially reduces the amount due to the Council. The levy calculation is adjusted for any section 31 grants, received by the Council arising from the reliefs announced by the Government during the Spring and Autumn Budgets, and for any local discretionary reliefs granted under section 47 powers. During the provisional 2019/20 finance settlement announced in December 2018, the Government approved the formation of the Lancashire Business Rates Pool as part of its 75% retention Pilot scheme for 2019/20 only. As a consequence of this and of currently being part of a pool, the levy that the Council would previously have had to pay to Central Government will be retained locally.
30. As part of the ongoing consultation around the new business rate retention proposals, the Government is proposing a reset, or partial reset, of the amount of Business Rates each Council expects to receive. A reset would mean that any previous growth in business rate income above the expected amount, achieved under the existing system, would be lost. This would mean an additional pressure on council's that had used any excess Business Rates income when balancing their annual budgets. It is expected that the new system of accounting for Business Rates will come into effect in 2020. However, details at this stage of how funding will affect Burnley Council is not yet known.

## **COLLECTION FUND SURPLUS**

### **31. Council Tax Element**

A surplus or deficit can arise for two reasons, namely:

- i) The Council's share of a variation in the amount of Council tax that is actually due and charged for the year in question compared with the figure assessed when the Council tax base for the year is calculated.
- ii) The Council's share of a variation in the amount that needs to be provided for taxes that the Council is unable to recover in each financial year.

This year's calculation has produced an overall deficit figure of £201k of which this Council's share is £32k which is 15.9% as a proportion of the overall total.

## **COMMERCIAL STRATEGY & FEES AND CHARGES**

- 32. The Council has developed and approved a commercial strategy. This is intended to promote a more commercial approach to the Council's business and finances and reflects the changed environment in which the Council now operates with the establishment of major contracts for service delivery including the strategic partnership with Liberata. Part of this commercial approach is linked to maximising where possible the income which the Council receives from fees and charges. Further work will be undertaken in 2019/20 in this area.
- 33. During the budget process, it has been assumed that income budgets would increase in 2019/20 reflecting a corresponding increase, where practicable, in fees and charges levied. Heads of Service were therefore asked to review their fees and charges in the context of an assumed minimum overall increase of 3% in income generated except in areas where it was considered that no increase should take place. It was decided that the increase should take effect from 1<sup>st</sup> January 2019 as has been the case previously. The tariff of fees and charges mainly effective from 1<sup>st</sup> January 2019 was approved by full Council on 19<sup>th</sup> December 2018. The estimated additional increase in income in 2018/19 as a consequence of the approved increases is £39k and forms part of the overall savings approved in September 2018 to balance the budget.

## **STRATEGIC EARMARKED RESERVES AND GENERAL FUND RESERVE**

- 34. It is important that, when considering the Revenue Budget, due consideration is given to the levels of strategic earmarked reserves that are available and held for future liabilities. The General Fund reserve is held to provide a working balance to help cushion the impact of unexpected emergencies and uneven cash flow.
- 35. The table below shows the anticipated use of strategic reserves for 2019/20 and later years. 40. The overall forecast position on reserves is shown in the table below. This includes all strategic earmarked and general reserves. The forecast below includes current approved and future commitments, future anticipated spend and future anticipated income into the reserves. This table excludes any reserves held for specific operational reasons:

	Strategic Earmarked Reserves £'000	General Reserve £'000	Budget Support Reserve £'000	Total £'000
Balance as at 01/04/18	5,049	1,379	-	6,428
Approved use to Q3 2018/19	(1,627)	-	54	(1,573)
Balance available after approvals	3,422	1,379	54	4,855
Future commitments and risks	(3,081)	-	1,904	(1,177)
Balance remaining	341	1,379	1,958	3,678

36. The Revenue Support Reserve is essential to provide resilience for the Council in light of reduced funding. As the authority adjusts to meet the pressures of reductions in Government funding, as well as awaiting the outcome of central government's funding review, which will govern local government funding from 2020/21 onwards, it has become increasingly challenging to produce savings annually as the authority contracts in resource and size. Savings proposals will carry more risk of successful implementation, whether they are income or expenditure-related. The Revenue Support Reserve will be required to provide temporary mitigation for some of these risks. However, the purpose of the reserve is also to temporarily provide for unanticipated reductions in income, provide for unexpected revenue spend and to support shortfalls in major capital projects beyond their business cases and after their allocated reserves are exhausted. The above forecast assumes a 10-year programme to build-up this reserve from the General Fund.

## **RISK ASSESSMENT**

37. A risk assessment has been carried out on key areas of income and expenditure and ways of monitoring and mitigating the risk have been identified where possible.
38. Two major capital schemes – Pioneer Place and Sandygate Square Development - saw their funding report approved at Full Council in December 2018. These represent significant long-term costs for the Council, and will require a material amount of borrowing over 30 to 50 years, with payback dependent on the success of the schemes. This carries significant financial risk for the authority and is an important element of the financial horizon of this Council. As part of mitigation strategies for these schemes a revenue support reserve has been set up this year with ongoing budget commitment to build up a balance over 10 years to somewhat protect the Council from shortfalls in income relating to this scheme or generally to support and budgetary shortfalls. It should be noted however that before the Pioneer Place construction commences the scheme requires:
- i. a pre-let to be completed for the new supermarket on Manchester Road;
  - ii. a pre-let to be completed for the new cinema on Pioneer Place; and
  - iii. pre-lets to be completed for 75% of the remaining units on Pioneer Place including Unit 2 adjacent the cinema, with the said pre-lets achieving a minimum of 75% of



the estimated full rent payable.

39. An important issue to consider is the extent to which the Council will be utilising earmarked reserves and non-recurring income when setting the budget. Initiatives that are to be funded from earmarked reserves do not have assumed ongoing funding and the Council must therefore plan in future years to discontinue these activities or approve growth if they are to continue. The latter course of action would add to the savings requirement. It is not considered that the extent of funding from earmarked reserves factored into the 2019/20 revenue budget is unduly onerous and the levels of reserves forecast will be sufficient in accordance with the medium term financial strategy (MTFS).
40. There are risks associated with the business rates system. The proposed elimination of Government grant funding through RSG by 2020 makes these risks more significant. An increasing proportion of the Council's funding requirement will need to be met from business rates. The Council remains optimistic that the business rates system can provide positive benefits through the stimulation of economic growth but there is the possibility of less than anticipated receipts through factors beyond the Council's control. Progress will therefore be carefully monitored to ensure that the Council's position is safeguarded.
41. Declining levels of income also continue to be a significant risk area and although substantial reductions in income receivable have been made to reflect current economic conditions there may be a further decrease in income levels supporting the revenue budget. This will be closely monitored as part of budget monitoring for 2019/20.
42. Pay inflation has been increased by 2% in 2019/20 and future years. There is little price inflation included within the estimates for non-salary budgets. However, general levels of inflation as measured in the retail prices index and the consumer prices index will increase in the future and this may lead to demands for higher pay and an increase in the prices of goods and services which the Council has to meet. The risk of any increase in inflation is considered likely in the existing climate and will be closely monitored.
43. Significant savings have been achieved by operating the Council's leisure services as a charitable company but there are however risks in the operation of the Trust and the assumptions made in terms of the management fee paid by the Council to the Trust. To ensure that risk is minimised there will continue to be regular monitoring of activity and financial performance in 2019/20 and beyond.
44. The Council entered into a contract with Liberata as our external service provider for around a third of Council services from 1<sup>st</sup> January 2016. The financial planning assumptions provided for a significant saving on previous in-house provision. It will be necessary to ensure that these savings are being delivered whilst maintaining service quality and standards. Procedures have been drawn up to enable the new partnership to operate effectively. Nevertheless this is a significant savings area which is currently and will continue to be, actively managed.
45. In summary, after taking consideration of the issues in this report and the risks referred to above, the 2019/20 revenue budget may be approved. Also, the assumed level of Council Tax that should be set in order to achieve a balanced budget as set out above should be confirmed.
46. The final decision that Members of the Council take will need to reflect the statutory (Section 25) report of the Chief Finance Officer as to the robustness of the assumptions

that have been made in compiling the budget.

#### **FINANCIAL IMPLICATIONS AND BUDGET PROVISION**

47. As shown in the body of the report and appendices.

#### **POLICY IMPLICATIONS**

48. The revenue budget determines the extent to which the Council's strategic objectives can be pursued and achieved.

49. Community Impact Assessment and Equality Impact Assessments have been completed for the additional savings proposals that are contained within Appendix 3. The Assessments are included as Appendix 4.

#### **DETAILS OF CONSULTATION**

50. None.

#### **BACKGROUND PAPERS**

51. None.

#### **FURTHER INFORMATION**

**PLEASE CONTACT:**

**Asad Mushtaq – Head of Finance and  
Property**

**ALSO:**