

**HARBOROUGH DISTRICT COUNCIL**

**REPORT TO THE CABINET MEETING OF 13 January 2020**

**PUBLIC REPORT: Yes**

**EXEMPT REPORT: No**

<b>Report Title</b>	<b>Emerging Budget Position for 2020/21</b>					
<b>KEY DECISION</b>	No					
<b>Report Author</b>	Karen Watling					
<b>Purpose of Report</b>	<ul style="list-style-type: none"> <li>To advise Cabinet on the emerging budget position for 2020/21 and the information that is still needed to finalise the position.</li> <li>For Cabinet to review the savings and growth proposals put forward for the year 2020/21 and to begin a period of consultation.</li> <li>For Cabinet to review the list of capital projects for possible inclusion in the Capital Programme for the period 2020/21 – 2021/22 and to begin a period of consultation.</li> </ul>					
<b>Reason for Decision</b>	<ul style="list-style-type: none"> <li>To provide the opportunity for consultation on the emerging budget position for 2020/21 with a focus on revenue budget growth and savings proposals and projects for possible inclusion in the capital programme.</li> </ul>					
<b>Portfolio (holder)</b>	<ul style="list-style-type: none"> <li>Councillor James Hallam; Finance</li> </ul>					
<b>Corporate Priorities</b>	<table border="1"> <tr> <td colspan="2">YOUR COUNCIL: innovative, proactive and efficient</td> </tr> <tr> <td>CO 10</td> <td>Deliver Financial Sustainability for the future</td> </tr> </table>		YOUR COUNCIL: innovative, proactive and efficient		CO 10	Deliver Financial Sustainability for the future
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<b>Financial Implications</b>	<ul style="list-style-type: none"> <li>These are considered throughout this budget report.</li> </ul>					
<b>Risk Management Implications</b>	<ul style="list-style-type: none"> <li>The budget proposals are subject to a risk assessment in their formulation and subsequent delivery. An overall assessment of the risks in the budget proposals will be undertaken by the S151 Officer and will form part of the report to Cabinet on the 10<sup>th</sup> February 2020 and Council on the 24<sup>th</sup> February 2020.</li> </ul>					
<b>Environmental Implications</b>	<ul style="list-style-type: none"> <li>None</li> </ul>					
<b>Legal Implications</b>	<ul style="list-style-type: none"> <li>The Council is required to consult on its budget prior to formulating its budget requirement. The Council is also legally obliged to set a balanced budget by the 11<sup>th</sup> March 2020. The Council is scheduled to approve the budget on 24<sup>th</sup> February 2020.</li> </ul>					
<b>Equality Implications</b>	<ul style="list-style-type: none"> <li>None</li> </ul>					
<b>Data Protection Implications</b>	<ul style="list-style-type: none"> <li>None</li> </ul>					
<b>Consultation</b>	<ul style="list-style-type: none"> <li>Consultation has been undertaken with the Portfolio Holder and other members of the Cabinet.</li> <li>Cabinet is asked to endorse the budget proposals contained in this report as a basis for consultation over the period from 14<sup>th</sup> January 2020 to 10<sup>th</sup> February 2020. The Performance Scrutiny Panel will consider this report on the 23<sup>rd</sup> January 2020. In addition, consultation will be with:</li> </ul>					

	<ul style="list-style-type: none"> <li>○ Trade Unions</li> <li>○ Local Businesses and Commercial Ratepayers.</li> <li>○ General public through the website and opportunity to comment on the budget. This link will be promoted via social media.</li> <li>○ Parishes and Town Councils</li> </ul>
<b>Options</b>	<ul style="list-style-type: none"> <li>● The report details the emerging budget position for 2020/21 that will be subject to consultation. The outcomes of the consultation and any revisions to the proposed budget will be reported to Cabinet on the 10<sup>th</sup> February 2020.</li> </ul>
<b>Background Papers</b>	None
<b>Appendices</b>	<ul style="list-style-type: none"> <li>● Appendix A - General Fund revenue budget</li> <li>● Appendix B – Net service expenditure budget analysed by type of spend</li> <li>● Appendix C – 2020/21 Growth &amp; Savings proposals</li> <li>● Appendix D – Capital Programme 2020/21 to 2022/23</li> </ul>
<b>Recommendation</b>	<b>That consultation is undertaken on the revenue budget savings and growth proposals, and the list of projects for potential inclusion into the capital programme, contained within this report.</b>

## 1. Introduction

- 1.1 This report has been prepared without the Council having received its provisional Local Government finance settlement for 2020/21 from the Ministry of Housing, Communities and Local Government (MHCLG). It is anticipated that this will not be received until January 2020.
- 1.2 MHCLG announced earlier in the year that the significant reforms of local government finance that were due to be introduced in 2020/21 (Fairer Funding Review, Business Rates Retention, and Business Rates reset) will be delayed until 2021/22.
- 1.3 It has therefore been assumed in the emerging 2020/21 budget position that there will be no significant changes in the amount of income the council receives from retained Business Rates and central government grants, most significantly New Homes Bonus and Rural Support Grant, from that received in 2019/20. However, this is not certain until the Council gets its provisional Financial Settlement figures.
- 1.4 There is a possibility therefore that the proposals contained within this report may need to be modified before Cabinet is asked to recommend the budget for Council approval in February 2020.
- 1.5 This report focuses on the proposals for savings, growth and the projects for possible inclusion in the capital programme. The latter needs a further review in terms of priorities, robust timelines, and funding requirements and it is proposed that a workshop on these issues is held with Cabinet Members early in the new year in order to shape the proposals into a recommended capital programme for the Council.
- 1.6 A more detailed report on the overall proposed General Fund revenue budget and capital programme, and any modifications needed, will be prepared for the meeting of Cabinet on 10<sup>th</sup> February 2020.

**2. General Fund revenue budget**

2.1 The emerging budget for 2020/21 is attached at **Appendix A**. The estimates give a total net expenditure of £13,475,731 which is an increase of £893,630 (7%) from the current year's approved budget. **Appendix B** gives an analysis of the total net expenditure budget in terms of types of expenditure being proposed.

2.2 Details of the movements between the current year's approved budget and the 2020/21 proposals, in terms of inflation, growth and savings, are given in the table below.

	<b>£'000</b>
2019/20 net direct cost of services	12,582
Expenditure inflation of 2%	240
Income inflation of 2%	(57)
Pay increases (increments, 2.5% pay rise and 1% pension)	223
Growth proposals	909
Savings proposals	(421)
<b>2020/21 proposed net direct cost of services</b>	<b>13,476</b>

2.3 Details of the growth, savings, and income generation proposals are attached at **Appendix C**.

2.4 Budget growth proposals result from various factors: some are related to increased demand for the council's services (for example, an increase in the costs of waste collection due to a rise in the number of properties in the district). Other increases are unavoidable if the service is to continue (for example, directly funding the physical activity team previously funded by grant income from government).

2.5 Other budget growth arises from investing in services in line with the council's corporate plan priorities. These include:

- A new service manager for the economic development team to increase senior capacity to promote Market Harborough and Lutterworth as vibrant market towns and to attract inward investment.
- A review of the corporate asset team in order to drive forward key council capital projects and capital investment.
- The development of a Young People's Strategy.
- A new service manager for customer services to help deliver the council's priority to improve the customer service experience.
- Increased costs arising from implementing the digitisation strategy (phase 1) to maximise the benefits of investing in management information systems.
- Funding a fixed term shared post with the Armed Forces to help deliver the Armed Forces Covenant.

2.6 Of the £421k savings being proposed, 38% of the total will be generated from increased income forecast to arise from several sources and activities including interest income, rental returns from the Harborough Innovation Centre, and additional fees from the grounds maintenance contract with Rutland District Council.

2.7 No reductions in service delivery are proposed in the 2020/21 budget. Two of the proposals (the review of the corporate asset team and implementation of paperless working) are dependent on these projects being successfully delivered before the savings can be achieved. These proposals are therefore less robust at this stage of the budget process than the others. A decrease of £137k is proposed in the contingency

budgets held which given the council's track record of tight control and underspending on the revenue budget is not considered to be a risk.

- 2.8 The revenue budget is proposed to be balanced by drawing down £723k from the general fund balance and £1.84m from earmarked reserves. It is estimated that this would then leave £5.8m in the general fund balance at the end of 2020/21 and £4.1m in earmarked reserves (and assumes that these reserves are utilised in 2019/20 in accordance with the approved budget).
- 2.9 Cabinet is reminded that reserves and balances are largely one-off sources of finance (although they can be replenished by transferring underspends and other income into the reserve by Council approval if such resources are available). The use of these one-off funding sources to balance the revenue budget is not sustainable over the medium and longer term. The most significant amounts of earmarked reserves proposed to be utilised in 2020/21 are as follows:
- £400k from the New Homes Bonus Reserve to fund the revenue budget in general.
  - £254k from the General Purpose Reserve to also fund the revenue budget in general.
  - £449k from the Planning Reserve to fund the ongoing salary costs of the Planning Team and a forecast decrease in planning fee income in 2020/21. It should be noted that the proposed use of this earmarked reserve will largely deplete the reserve of resources after 2020/21.
  - £566k to fund the forecast deficit of operating the building whilst it is finished and attracts tenants. The financial model analysing the costs and income forecasts of operating the Grow-On Centre is currently being rebuilt by the Finance and Assets teams, and the forecast deficit position may therefore change by the time the budget report is produced for February 2020.
- 2.10 It is proposed to undertake a full review of all the council's earmarked reserves including a reassessment of the amounts held and the rationale for holding them. It is likely that the number of earmarked reserves can be reduced which would mean that the overall picture of the council's resources can be made clearer and more transparent. Any recommendations arising from this review will be brought to Cabinet and Council as part of the budget report in February 2020.
- 2.11 The emerging budget also contains an £82k contribution to earmarked reserves (£40k to the elections reserve, £10k to fund future air quality management initiatives and £32k to the Business Rates Growth reserve).
- 2.12 The key assumptions made in the emerging budget position include:
- A growing Council Tax base assumed to increase by £101k in 2020/21 (representing approximately 200 new homes in the district).
  - The continuation of the current Business Rates regime and no recalibration of the Business Rates baseline in 2020/21.
  - Retention of 50% of forecast Business Rates growth above the baseline (valued at £1.6m for the council).
  - The continuation of New Homes Bonus and Rural Services Delivery Grant in 2020/21 for one final year (£2,270k and £134k assumed in the budget proposals respectively).

- 2.13 The proposals result in an unchanged District Band D Council Tax demand for 2020/21 (remaining at this year's level of £167.97 per Band D property including special expenses but excluding precepts).
- 2.14 It should be noted that given the ending of the government's four year settlement in this current financial year (2019/20), and the delay of the changes to the local government finance regime until 2021/22, it is not proposed to produce a medium term financial strategy until greater clarity is gained on the timing, detail, and impact of the funding changes on this council. This is therefore a one-year "roll-forward" budget position only although some context about the possible resources the council may have over the medium term will be given in the February budget report.

### **3. Capital Programme**

- 3.1 A list of projects for possible inclusion in the capital programme for 2020/21 to 2022/23 is attached at **Appendix D**.
- 3.2 The appendix also lists possible capital projects that form part of the council's capital ambition programme. These are projects that are actively being worked up but are not yet ready to be included in the capital programme as the proposals, figures and delivery plans need to be firmed up. These projects will require robust Business Cases to be submitted to Cabinet and Council during the 2020/21 financial year to gain approval for inclusion in the capital programme.