

Meeting EXECUTIVE/COUNCIL

Portfolio Area Resources

Date 13 FEBRUARY 2019/27 FEBRUARY 2019



FINAL GENERAL FUND AND COUNCIL TAX SETTING 2019/2020

KEY DECISION

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1. PURPOSE

- 1.1 To consider the Council's final 2019/20 General Fund Budget, Council Tax Support Scheme and proposals for the 2019/20 Council Tax.
- 1.2 To consider the projected 2018/19 General Fund Budget

2. RECOMMENDATIONS

EXECUTIVE

That the following proposals be recommended to Council on 27 February 2019:

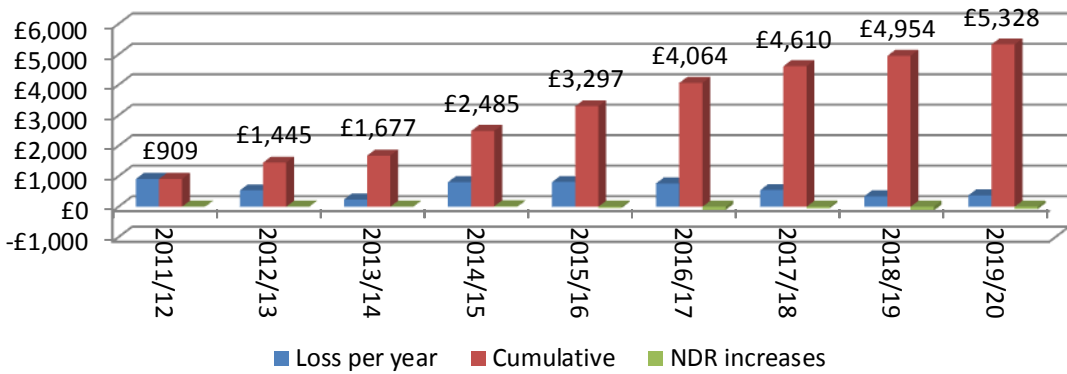
- 2.1 That the 2018/19 revised net expenditure on the General Fund of £10,063,500 be approved.
- 2.2 That a final General Fund Budget for 2019/20 of £8,802,520 be proposed for consultation purposes, with a contribution from balances of £48,446 and a Band D Council Tax of £210.57 (assuming a 2.99% increase).
- 2.3 That the General Fund Summary as shown at Appendix A to this report, be approved.
- 2.4 That the Risk Assessments of General Fund Balances and the minimum level of General Fund reserves of £2,671,410, as shown at Appendix B to this report, be approved.

- 2.5 That the contingency sum of £400,000 within which the Executive can approve supplementary estimates, be approved for 2019/20, (unchanged from 2018/19).
- 2.6 That the 2019/20 proposed Fees and Charges increase of £219,790 (Appendix C to this report) be approved.
- 2.7 That the 2019/20 proposed Financial Security Options of £798,552 (Appendix D to this report and including fees and charges detailed in Appendix C) be approved.
- 2.8 That 2019/20 business rate gains totalling £400,000 above the baseline assessment be ring fenced for town centre regeneration (SG1), (paragraph 4.6.7 of the report refers) be approved.
- 2.9 That 2019/20 business rate gains totalling £364,830 above the baseline assessment be used to increase General Fund balances for 2019/20, (paragraph 4.6.7 of the report refers) be approved.
- 2.10 That 2019/20 business rate gains totalling £275,000 above the baseline assessment be transferred to the NDR allocated reserve for 2019/20, (paragraph 4.6.7 of the report refers) be approved.
- 2.11 That the 2019/20 Council Tax Support scheme is approved as set out in section 4.8 to this report.
- 2.12 That the advice of the Assistant Director (Finance and Estates) on the robustness of the draft budget and the adequacy of reserves (Appendix G) be noted.

3. BACKGROUND

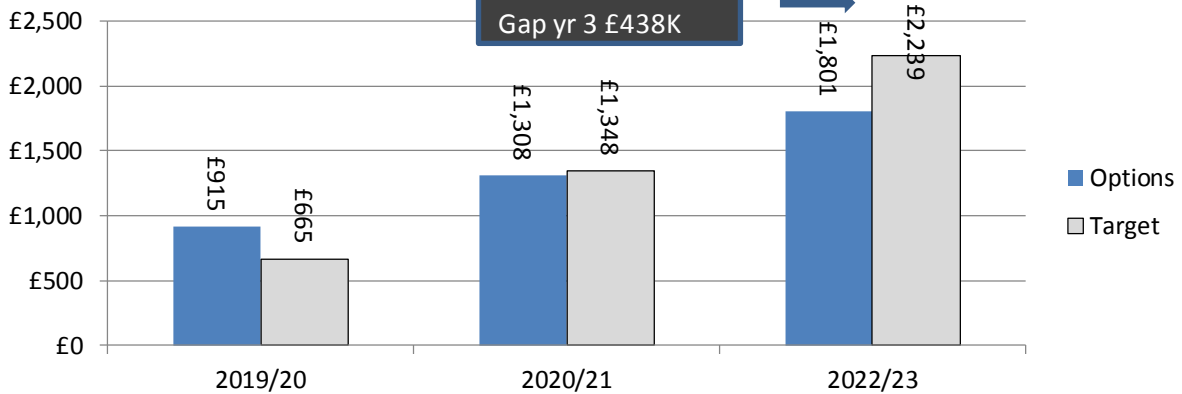
- 3.1 This report presents the Council's General Fund net expenditure for 2019/20 taking account of the Financial Security options, fee increases and any pressures. The General Fund Budget forms part of the Council's Budget and Policy Framework. Under Article 4 of the Constitution, the Budget includes: the allocation of financial resources to different services and projects; proposed contingency funds; setting the council tax; the council tax support scheme; decisions relating to the control of the Council's borrowing requirement; the control of its capital expenditure; and the setting of virement limits.
- 3.2 The Council's Financial Strategy (MTFS) was reported to Executive in September 2018 and updated in the November Financial Security report. Both reports highlighted the need for an on-going Financial Security savings target to fund inflation and service pressures compounded by the loss of central government of £5.3Million by 2019/20.

Annual Government Grant Loss £'000



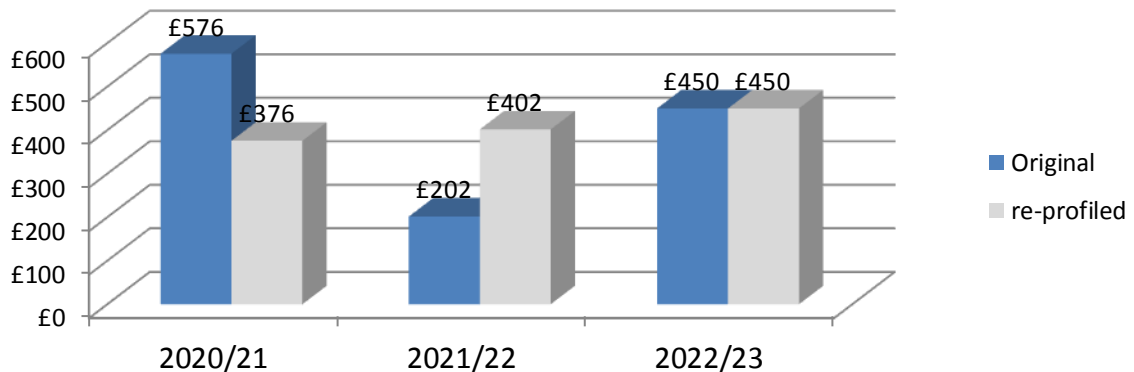
3.3 The November Financial Security report identified that even with the Financial Security options presented to that committee, there was a significant financial shortfall in year three, (2022/23).

Financial Security Options versus Target

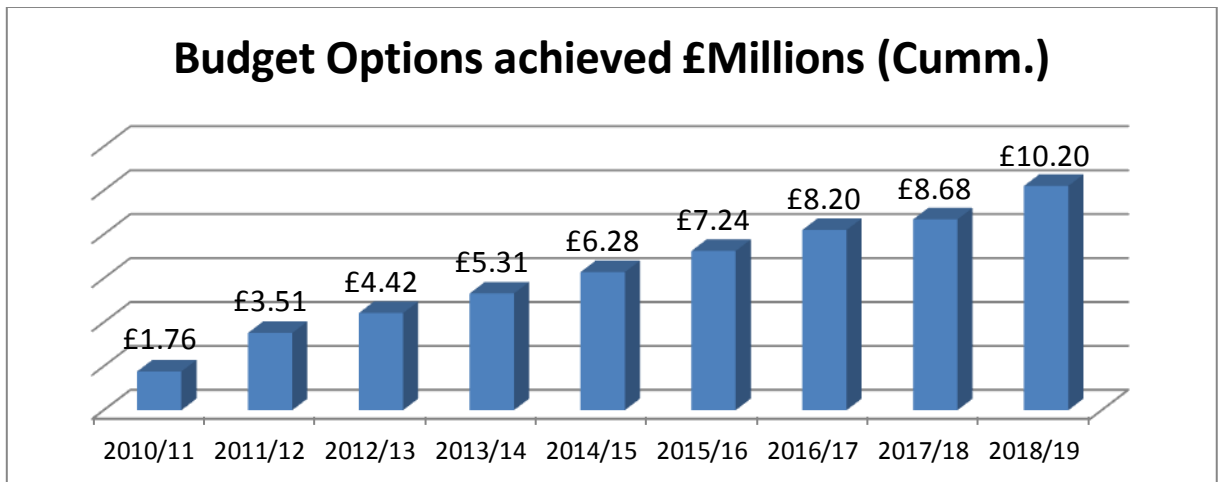


3.4 This resulted in a revision to the Financial Security work stream and future targets as set out below and approved by Members as part of the Financial Security report to the November Executive.

Financial Security Target General Fund £'000



- 3.5 The need to find budget reductions since 2010/11 has not just resulted from central government grant reductions, but has been compounded by other government policy changes e.g. apprenticeship levy, national insurance changes, reductions in housing benefit administration grant and service pressures from initiatives such as benefit freezes and other welfare reforms. The total identified savings implemented since 2010/11 is summarised in the chart below.



- 3.6 The MTFs as approved by Members in September (2018) had a key principle: 'achieve an on-going balanced budget by 2022/23 by ensuring inflationary pressures are matched by increases in fees and income or reductions in expenditure'. This is critical as the managed use of balances in the MTFs starts to converge with the level of minimum balances.
- 3.7 At the November 2018 meeting, the Executive approved a package of Financial Security budget options, growth and pressures and fee increases to be included in the 2019/20 Budget.
- 3.8 The Council signed up to the four year central government funding settlement deal for the period 2016/17-2019/20, with 2019/20 the final year. Members also approved Stevenage being part of the Hertfordshire business rates pilot for 2019/20, which would mean £275K of business rates in addition to the estimated £631K (Financial Security November report) above the baseline assessment, (the amount the government has estimated we need from business rates). In the November Financial Security Report to the Executive members approved £400K be ring fenced for regeneration, with the remaining £231K to support General Fund balances. Notification of the provisional 2019/20 Finance Settlement, New Homes Bonus (NHB) allocation and Hertfordshire Business Rates pilot were received on 13 December 2018 and detailed in section 4.4 and 4.5. The Final settlement was received on the 29 January 2019 and there was no change from the provisional figures.
- 3.9 Members were advised in the September MTFs report that the Government was minded to allow District Authorities to increase their council tax by £5.00 on a band D which for the Council would see an increase of 2.52% or up to 3% whichever was the greater and the Draft General Fund budget assumed a 2.99% increase for modelling purposes.

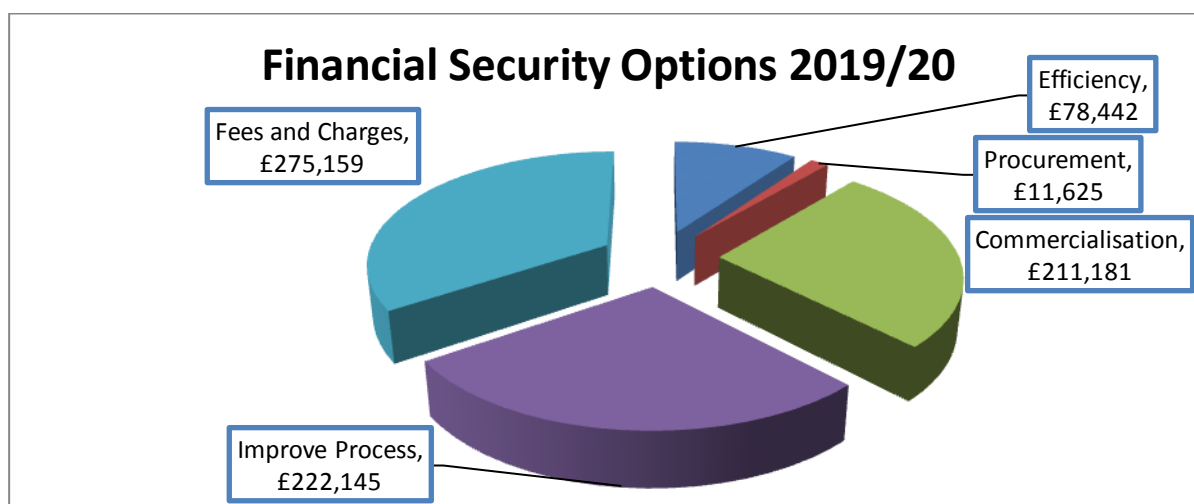
3.10 The Budget and Policy Framework Procedure Rules in the Constitution, prescribe the Budget setting process, which includes a consultation period. The timescale required to implement this process is outlined below:

Date	Meeting	Report
January 2019	Executive	Draft 2019/20 General Fund budget, Council Tax and Council Tax Support (incorporating Financial Security Options)
	Overview and Scrutiny	Draft 2019/20 General Fund budget, Council Tax and Council Tax Support (incorporating Financial Security Options)
February 2019	Executive	Final 2019/20 General Fund budget, Council Tax and Council Tax Support
	Overview and Scrutiny	Final 2019/20 General Fund budget, Council Tax and Council Tax Support
	Council	Final 2019/20 General Fund budget, Council Tax and Council Tax Support

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

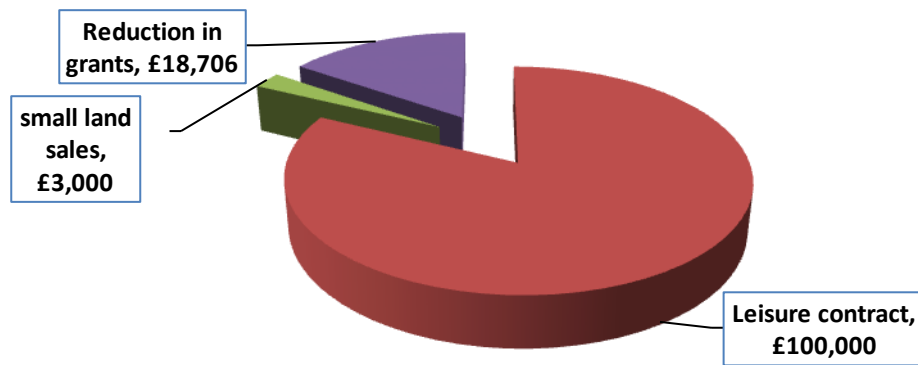
4.1 Financial Security Options

4.1.1 At the November Executive, Members approved General Fund Options of £798,552, and as detailed in Appendix C & D (unchanged from the November Financial Security report or the January draft General Fund report). A summary of the new proposed options is shown below. There is no change from the



4.1.2 There are options from previous years that have an incremental increase on the General Fund. These are summarised below.

Prior year Savings options with 2019/20 Impacts



4.1.3 Members also previously approved a Commercial Property Investment Strategy with an associated income target of £200,000 per annum, (July Executive 2017). However only one site has been purchased to date, with further options under review. The total net income to be generated in 2018/19 is estimated to be £50,000.

4.1.4 Officers together with the Leaders Financial Security Group (LFSG) will be working towards achieving the unidentified Financial Security target as summarised in paragraph 3.4, which totals £1.2Million for the three years 2020/21-2023/24. Although the Financial Security report to the November Executive only identified a £438K shortfall in the 2019/20-2021/22 Financial Security target, the target has been increased to reflect;

- savings target for 2022/23 **£450K**;
- mainstreaming of funding for priority New Homes Bonus (NHB) services **£100K**;
- removal of NHB contribution to the General Fund as a result of uncertainty around the level and future of the resource **£200K**;
- identified shortfall in the Financial Security Target 2019/20-2021/22 **£438K**

4.1.5 The Financial Security target outlined above includes fees and charges increases and is based on an annual increase in council tax. On-going Financial Security options are required to fund inflationary pressures while at the same time absorbing the impact of reductions in government grants.

4.2 Fees and Charges

4.2.1 2019/20 fees, charges and concessions were reviewed as part of the work of the Corporate Fees and Charges Group, with the results scrutinised and recommendations made for approval by LFSG, as detailed in Appendix C (£219,790) and included in the Financial Security totals in 4.1 above. There is no change from the November Financial Security report or the January draft General Fund report.

4.3 Service Pressures

4.3.1 There was no growth allowance for the 2019/20 draft budget and only a small allowance of £75,000 assumed from 2020/21 onwards. However, since the approval of the Financial Security report at the November Executive and the revision of the

Financial Security targets, a number of ICT pressures have been identified totalling £122,000 in 2019/20. These were included in the Draft budget to the January Executive and related to increased functionality and future proofing the service by for example enabling email and general data to move to the cloud, which will also add resiliency and flexibility to the email and data provision. The licence brings additional products such as Skype, Teams, Onedrive. In addition moving to Office 365 will be a more cost effective package in the long term as existing software costs will increase significantly. A summary of the pressures are summarised in the table below.

Summary of IT Pressures		£
Move to Microsoft 365 Licences- the Council has had to change licence provision (GF share)		67,000
System Upgrades 2019/20 – Northgate, Business Objects, Oracle and other smaller upgrades		22,320
Inflation pressures –(above that reported in the MTFS) mainly due to dollar and Euro exchange rates increasing cost of ICT products		32,790
		£122,110

4.3.2 In addition to costs shown above, there are likely to be other revenue and capital pressures identified by the ICT Board’s long term plan. The Board identified some staffing pressure costs for the period 2018/19-2020/21 which required funding.

4.3.3 In order to minimise the impact on the General Fund of the ICT pressures, (before a fully costed business case or restructure can be agreed), the CFO recommended in the draft budget setting aside of monies to deliver this in the interim rather than increasing the General fund base budget. Costs identified to date and recommended by the ICT Partnership Board (and both SBC and EHDC leadership teams) are shown below.

ICT staff costs	2018/19	2019/20	2020/21	Total
Identified costs	£109,972	£225,810	£267,868	£603,650
SBC share (50%)	£54,986	£112,905	£133,934	£301,825
General Fund	£36,841	£75,646	£89,736	£202,223
HRA	£18,145	£37,259	£44,198	£99,602

4.3.4 The CFO has identified that the ICT cost pressures can be funded by taking the projected overachievement of housing benefit overpayment budgets (£100K in 2018/19 and 2019/20) and the residual sums in the FTFC allocated reserve to create an ICT allocated reserve, in the interim period prior to any business case coming forward.

4.3.5 The rationale for not increasing General Fund housing benefit income budgets by £100K is because when claimants on benefit transition to Universal Credit, overpayments will no longer be raised. This means the Council will not be able to claim the 40% subsidy on the overpayments as well as the potential 100% recovery of overpayments, in addition any legacy amounts will be difficult to collect, increasing bad debt provisions. The impact of this would be an increase in the General Fund net budget.

4.3.6 The CFO had recommended that any overachievement of income be transferred to an allocated reserve, to 'cap' the amount of reliance on overpayment income for the General Fund, when/if it reduces for working aged claimants. Members approved at the January Executive that these monies were ring-fenced to fund ICT pressures until a business case is approved for any mainstreaming of additional ICT budgets.

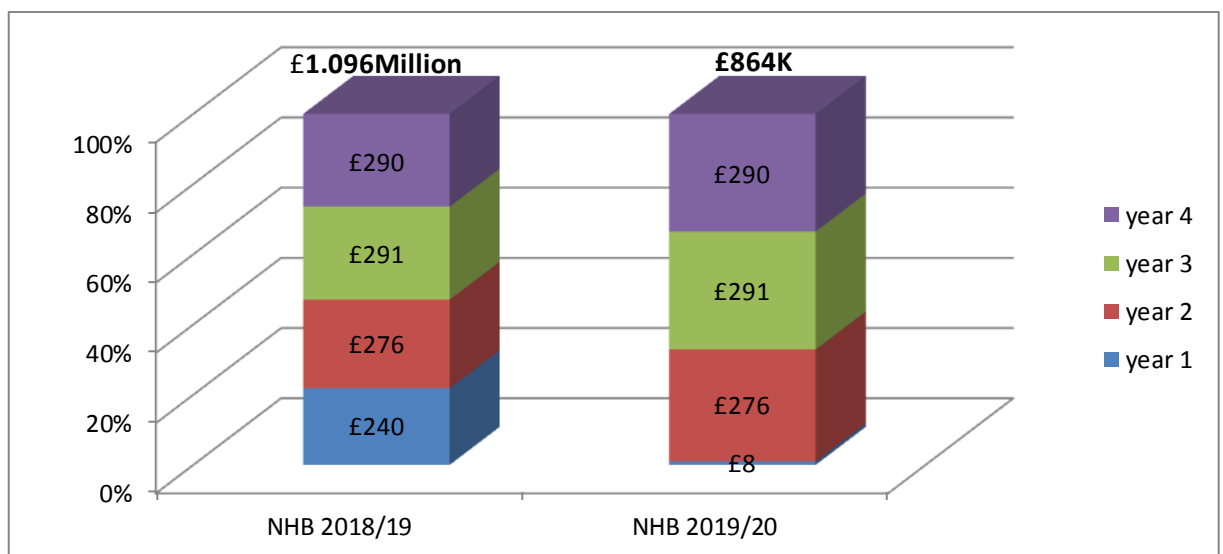
4.3.7 There is an impact of the ICT costs on the HRA and its share of ICT costs are proposed to be funded from within the transformation budgets already in the HRA budget.

4.3.8 In addition to the pressure identified above, there are also potential General Fund cost pressures as noted in the Regeneration update report to the December Executive. The Draft Capital Strategy report to the January Executive identified the need to fund the new bus station as part of the Town Centre Regeneration scheme (SG1), if the identified Local Enterprise Board (LEP) monies allocated to the bus station are not released. Use of any borrowing will significantly impact on the General Fund at an estimated £52,000 per Million spent. The Capital Strategy report to this Executive identifies the proposal to potentially fund the works required in 2019/20 and 2020/21 in the interim period, should the funding not be released.

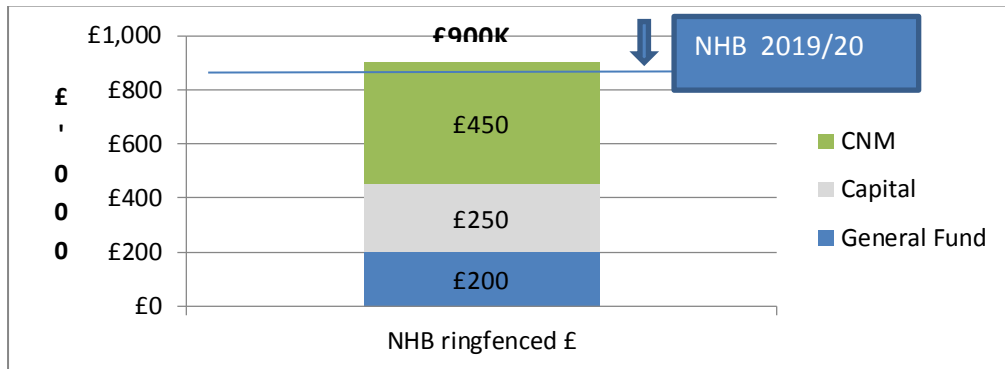
4.4 New Homes Bonus

4.4.1 The Council receives New Homes Bonus (NHB) for every additional property in its tax base, (at 80% of the equivalent national average value Band D property above a 40% threshold) and receives the gain from 2019/20 for four years, (2018/19 five years, 2016/17 and earlier, six years). A threshold of 0.4% of the tax base has to be achieved before any NHB is payable, after changes the government announced for 2017/18. This had the effect of reducing the amount of NHB payable in the current year.

4.4.2 The amount of NHB the Council will receive in 2019/20 is much lower than expected because the council tax base at 1 September 2018 did not increase higher enough above the threshold test, (0.4% of the 1 September 2017 tax base). This means the total allocation for 2019/20 is £864K compared to the £1.096Million received in 2018/19. Future years are likely to be at the same level or less and the government has signalled a change to how NHB will be awarded and some local government observers have suggested that NHB may be removed altogether.



4.4.3 The impact of the reduction in NHB is that the ring fenced allocations from NHB cannot all be met from the 2019/20 allocation, with a shortfall of £36K. However there are unspent prior year balances sufficient to fund the shortfall in 2019/20, with £36K required from balances in 2020/21. With the risk of removal/change to the rules of NHB in the next spending review, the Executive approved the removal of the £200K contribution to the General Fund and increased the Financial Security target (£36K in 2020/21 and £200K in 2021/22) at the November Executive.



4.4.4 In addition to the ring fenced allocations, three high priority services have been supported by NHB, the domestic abuse project (SADA), No More Project and the co-operative neighbourhood wardens. There is sufficient funding in 2019/20 to resource the domestic abuse and no more projects due to the success of attracting external monies and remaining unspent NHB balances for these projects. The four wardens funded from new homes bonus have been incorporated into the community and neighbourhood's business unit review, (fully from 2020/21) and only require a top up of £7.8K, (was reported as £37K in FS report), in 2019/20 as a one off. Members approved funding the one off shortfall for the fourth Community Neighbourhood warden from General Fund balances in 2019/20. Post 2019/20 Members approved increasing the Financial Security targets by £100K in 2020/21 to meet the on-going costs of the domestic abuse and no more projects.

4.4.5 The 2019/20 NHB monies means there are no funds left for new one off projects. The CFO and Members will also need to review the future funding of the capital and CNM programme once the policy on NHB becomes clear or if the 2020/21 NHB amount does not meet the amounts required as outlined in the chart in 4.4.3.

4.5 Finance Settlement

4.5.1 The provisional finance settlement was published on the 13 December 2018 and the final on the 29 January 2019. Compared to the figures previously published (as part of the 2018/19 settlement), there was an increase of £1,824 for 2019/20, as a result of the increase in RPI for Business Rates. The draft budget report to the January Executive had assumed the return of levy surplus (£38,833) would be paid in 2019/20, however the Government has indicated this will now be paid in 2018/19 and this report reflects that switch between years.

4.5.2 The 2018/19 settlement increased by £72,672 as a result of a correction by the government to error indexing of business rates and the return of levy surplus now to be paid in 2018/19.

Final Finance Settlement (2019/20)		
	2018/19	2019/20
Revenue Support Grant	£351,230	£0
Business Rates:		
Business Rates	£2,474,490	£2,531,197
Under indexing	£51,552	£77,430
Other adjustments	£38,994	
Return of levy surplus	£38,833	
Total Business Rates	£2,603,869	£2,608,627
Total	£2,955,099	£2,608,627
Variance to 2018/19 settlement	£72,672	£1,824

- 4.5.3 Stevenage Borough Council would have had negative Revenue Support Grant (RSG) from 2019/20 of £27,145, however the government signalled in the finance settlement consultation that this would not be a cost to councils in 2019/20.
- 4.5.4 The Government indicated in the Autumn Budget that there will be the next reset of business rates baselines in 2020/21 and a move to 75% business rates retention in 2020/21, which will see RSG and Public Health grant replaced by business rates income, the methodology for this and therefore the impact on SBC has yet to be assessed. However Members should note that if there is a full reset of rates any gains above the baseline would not be on-going beyond 2020/21.
- 4.5.5 In addition to the NDR baseline funding the Council has the opportunity to retain a proportion of business rates growth which currently attracts a levy payment to the government of 50%. However for 2019/20 the countywide bid to retain 75% of all Hertfordshire business rates was successful, as announced as part of the finance settlement on the 13 December 2018. This is discussed in more detail in section 4.6 to this report.

4.6 Business Rates and the Pilot

- 4.6.1 At the September Executive Members delegated to the Assistant Director (Finance and Estates), after consultation with the Resources Portfolio holder the authority to join the Hertfordshire Business Rates Pilot for 2019/20. This required a bid to be submitted to the government by 25 September 2018.
- 4.6.2 All business rates (after the tariff from District authorities has been charged) will be kept in Hertfordshire, which after each LA share is distributed (in line with the bid document), there is an opportunity to bid for a share of a £2.33Million pot of funding.
- 4.6.3 The Council (via the Executive) must approve the level of estimated 2019/20 business rates it will receive by 31 January each year. However the timing of the announcement of the Government settlement on the 13 December together with

information on the business rates pilots means that there was not enough time to complete a report for the January Executive and Members approved at the January Executive this was delegated to the Assistant Director (Finance and Estates) following consultation with the Portfolio Holder for Resources. This has now been completed and the impact reflected in this report.

4.6.4 The projection for 2019/20 business rate gains for SBC (excluding the benefit of being in the Hertfordshire Pilot) is now estimated at £764,825, following completion of the NNDR1 form which calculates the amount of business rates for the year. This is £51,058 more than the January Executive report. This is based on a review of NDR yield appeals provision and bad debt. If the Council's NDR yield reduces in 2019/20 the amount of gains will also diminish, therefore a proportion is recommended to be transferred to General Fund balances.

4.6.5 The Hertfordshire business rates pilot increases the projected NDR income to a gain of £1 Million, an increase of £275,000 with the added benefit of bidding for the central pot. This amount was not known at the time of writing the report as it is reliant on the amalgamation of all ten NNDR1 in Hertfordshire. The pilot works on the principle that no council will be worse off in the pilot than they would have been had the pilot not been approved (amount shown in paragraph 4.6.4).

4.6.6 There are risks to taking all business rate income projections in year such as:

- a recent case at the Supreme Court exempting shop-based cash machines from separate business rates this will if not appealed date back to 2010
- A large appeal was successful totalling £1.5 Million of which only 50% had been estimated in the provision
- A number of retail companies have issued profit warnings and/or indicated some store closures still to be announced nationwide.

4.6.7 Due to the vagaries of the tax system the CFO has never built these into the base budget. **However, should the gains be realised then Members approved at the November Executive and subsequently at the January Executive the following allocations for gains that:**

- **£400,000 would be used to support the Council's regeneration priority**
- **£364,830 (updated for increase of £51, 058) being used to increase General Fund balances to allow for any unidentified pressures or delay in FS options being implemented.**
- **£275,000 is set aside in a business rates allocated reserve until 2020/21, until the actual gains are projected to be achieved.**

4.7 Council Tax

4.7.1 Part of the budget setting process includes consideration of council tax levels. The November Financial Security report (with updated MTFS) modelled a 2.99% council tax increase for 2019/20 however the government had not published the outcome of the consultation on the settlement or the settlement at that date.

4.7.2 In the Provisional settlement the Government is allowing up to a 3% increase before a referendum on the level of council tax is required or £5.00 on a Band D, whichever

is higher. This increases council tax in line with inflation and effectively allows for a 2.99% increase (CPI 2.4%, RPI 3.3% in September 2018).

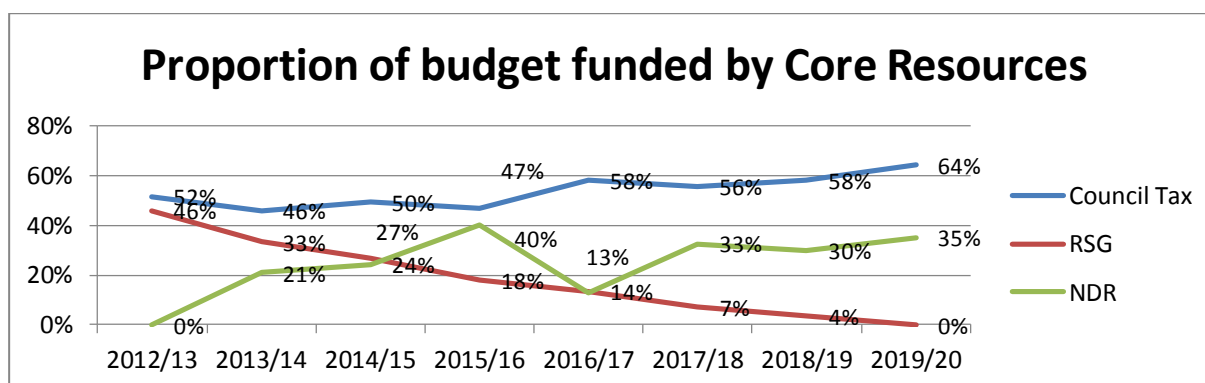
4.7.3 The table below shows the 2.45% and 2.99% increase per year for each council tax property band.

Council Tax band	2018/19	Increase per year					
		2.45%	2019/20 (2.45%)	Total cost per week	2.99%	2019/20 (2.99%)	Total cost per week
A	£136.31	£3.33	£139.64	£2.69	£4.07*	£140.38*	£2.70
B	£159.02	£3.89	£162.91	£3.13	£4.75	£163.77	£3.15
C	£181.74	£4.44	£186.18	£3.58	£5.43	£187.17	£3.60
D	£204.46	£5.00	£209.46	£4.03	£6.11	£210.57	£4.05
E	£249.90	£6.11	£256.01	£4.92	£7.47	£257.37	£4.95
F	£295.33	£7.22	£302.55	£5.82	£8.83	£304.16	£5.85
G	£340.77	£8.33	£349.10	£6.71	£10.18*	£350.95*	£6.75
H	£408.92	£10.00	£418.92	£8.06	£12.22*	£421.14*	£8.10

**Band A,G&H have reduced by 1pence since the draft General Fund budget due to roundings*

4.7.4 Increasing council tax by 2.99% compared to say a 1.99% increase does net the Council an additional £55,878 in 2019/20 per year or £295,000 over a five year period and £135,000 more than increasing council tax by 2.45%. This does contribute to the Council meeting Financial Security targets alongside the options contained within this report and protect front line services.

4.7.5 Council tax is a key funding resource and locally raised taxation has become more important to the General Fund (as central funding reduces) in sustaining services for the future. The table below shows that by 2019/20 the MTFS assumes that 64% of core resources will be generated from council tax.



4.7.6 As in previous years the council tax increase will not be agreed until the February Council meeting. Based on the increasing financial dependency the General Fund budget has on council tax the Assistant Director (Finance and Estates) recommends a 2.99% increase be considered by the Executive and Overview and Scrutiny Committee.

4.8 Council Tax Support

- 4.8.1 A local CTS scheme cannot be revised for at least one financial year. A Billing Authority (SBC) must consider whether to revise or replace its scheme with another on an annual basis.
- 4.8.2 Any revision to a scheme must be made by the Council by the 11 March, immediately preceding the financial year in which it is to take effect and will require consultation with those affected. Additionally consideration should be given to providing transitional protection where the support is to be reduced or removed.
- 4.8.3 The Council must, in the following order, consult with major precepting authorities (i.e. Hertfordshire County Council and Police and Crime Commissioner for Hertfordshire), publish a draft scheme in such manner as it thinks fit, and consult such other persons as it considers are likely to have an interest in the operation of the scheme. The CFO wrote to both precepting authorities regarding the proposal for 2019/20 and at the date of writing the report HCC had no objections to the scheme proposed and no response had been received from the PCC.
- 4.8.4 Each year a report is usually brought to members to determine whether any changes should be made to the current scheme as outlined above and if so to start consultation during the summer.
- 4.8.5 The Local Council Tax support scheme is for working age claimants only. The scheme for elderly residents is still prescribed by central government.
- 4.8.6 The current **working age** scheme is assessed on 91.5% of maximum liability. It is fully means tested and there is no tolerance for changes in income before impacting on entitlement. Members have previously agreed no additional protection for individual groups, other than that required in law (pensionable aged claimants), and that built into the original Council Tax Benefit scheme. All working age customers have to pay at least 8.5% of their liability. This is demonstrated below.

Table 1: Annual value of 8.5% of liability by band

8.5% per year	2013/14/ 2014/15	2015/16	2016/17	2017/18	2018/19
Band A	£82.46	£83.72	£86.54	£90.46	£ 95.71
Band B	£96.20	£97.67	£100.96	£105.54	£ 111.66
Band C	£109.95	£111.63	£115.38	£120.61	£ 127.61
Band D	£123.69	£125.58	£129.81	£135.69	£ 143.56
Band E	£151.18	£153.49	£158.65	£165.84	£ 175.46
Band F	£178.66	£181.40	£187.50	£196.00	£ 207.36
Band G	£206.15	£209.30	£216.34	£226.15	£ 239.26
Band H	£247.38	£251.16	£259.61	£271.38	£ 287.12

Table 2 : Weekly value of 8.5% of liability by band

8.5% per week	2013/14/ 2014/15	2015/16	2016/17	2017/18	2018/19
Band A	1.59	1.61	1.66	1.74	1.84
Band B	1.85	1.88	1.94	2.03	2.14
Band C	2.11	2.15	2.22	2.32	2.45
Band D	2.38	2.42	2.5	2.61	2.75
Band E	2.91	2.95	3.05	3.19	3.36
Band F	3.44	3.49	3.61	3.77	3.98
Band G	3.96	4.03	4.16	4.35	4.59
Band H	4.76	4.83	4.99	5.22	5.51

- 4.8.7 On 8 March 2018 Overview and Scrutiny committee received a presentation on a potential new scheme for 2019/20 based on claimant's income bands. The new style of scheme would aim to simplify the criteria for customers as well as mitigating the impact of changes in circumstances on workload and council tax collection, resulting from universal credit reassessments.
- 4.8.8 Customers whose income remained within the band for their circumstances would not have their CTS reassessed for a small change in circumstances. Entitlement for other income levels would be clear and accordingly this would provide increased clarity and stability for those whose income changes regularly or as a result of the monthly reassessment of universal credit entitlement.
- 4.8.9 Members were advised that substantial modelling would need to be carried out to avoid any unintended consequences, as well as enabling full consultation with tax payers and major preceptors. The current software modelling tool is unable to model certain family groups which prevents evaluation of the impact of the proposed scheme on the existing scheme. A new module is due for release in the autumn and it is proposed to recommence modelling again at that time, for consideration for a scheme from 2020.
- 4.8.10 The Executive approved the recommendation to keep the existing scheme in place for 2019/20 at its meeting held on the 5 September 2018. **Members are recommended to agree the existing scheme updated for benefit changes for 2019/20.**

4.9 General Fund Net Expenditure

- 4.9.1 The 2018/19 projected and the 2019/20 draft General Fund net expenditure is summarised in Appendix A (Summary of General Fund Expenditure). The 2019/20 budget has decreased by £273,070 compared to the January Executive report. However, the reduction in cost includes an increase in income of S31 grants (£276,420). In the Chancellors budget speech (October 2018) a number of retail reliefs were announced and completion of the NNDR 1 form has estimated the amount due in 2019/20. While the Council receives compensation for S31 reliefs given as it suppresses the business rate yield collectable, this just transfers business rate income from core resources (below the line) to net expenditure (above the line) and does not reduce the draw on balances.

4.9.2 If the increased S31 impact on General Fund net expenditure is excluded (as it is neutral and merely switches income from core resources to net expenditure), there is still an increase in on-going net expenditure of £195,990 from that reported in the November Financial Security report. The increase in expenditure has been partly mitigated by a review of budgets which identified £84,430 of further budget savings relating to repair, travel and other budgets. (The increased on-going impact reported at the January Executive was £234,546). A summary of the changes are shown in the table below.

Summary of 2019/20 budget movements	On-going?	£	On-going £
January Executive Draft Budget		£9,075,590	£231,200
Lower costs/Increased Income:			
NNDR Admin grant - grant notification received	Y	(£720)	(£720)
Review of budgets to identify budget savings (based on historic spend)	Y	(£84,430)	(£84,430)
Increase S31 grants for new retail relief	Y	(£276,420)	
Increased Costs/lower Income:			£0
HB Admin Grant pressure - grant notification received	Y	£11,120	£11,120
NNDR Levy surplus return (s31 grant) to be paid 2018/19 not 2019/20	N	£38,830	
Increase in salary inflation	Y	£25,200	£25,200
Revision to shared service costs & other contracts	Y	£13,350	£13,350
Total budget movements		(£273,070)	(£35,480)
Updated General Fund 2019-20 net budget		£8,802,520	£195,720

4.9.3 The 2018/19 General Fund working budget has decreased by £56,080 a summary of is shown in the table below.

Summary of 2018/19 budget movements	£	£
January Executive approved budget		10,119,580
Increase in projected Recycling subsidy (Alternative Financial Model Framework AFM) from HCC		(38,280)
NNDR adjustment to the levy calculation		21,030
NNDR Levy surplus return (s31 grant) to be paid 2018/19		(38,830)
Total budget movements		(56,080)
Updated General Fund 2018-19 net budget		10,063,500

4.9.4 The Council was notified of the change to the levy calculation in January 2019 and has been included in the 2018/19 budget.

4.10 Projected General Fund Balances

4.10.1 The projected General Fund balances and council tax requirement are shown below.

	2018/19 Estimate	2018/19 Projected	2019/20 Estimate
Net Expenditure*	£9,411,453	£10,063,500	£8,802,520
(Use of)/ Contribution to Balances	(£818,821)	(£1,368,639)	(£48,446)
Budget Requirement	£8,592,632	£8,694,861	£8,754,074
RSG	(£351,230)	(£351,230)	£0
Business Rates	(£2,539,149)	(£2,641,378)	(£2,562,580)
Total Government Support	(£2,890,379)	(£2,992,608)	(£2,562,580)
(Return) /Contribution to Collection Fund (NDR)	(£30,293)	(£30,293)	(£380,962)
Collection Fund Surplus (ctax)	(£139,616)	(£139,616)	(£55,621)
Council Tax Requirement	£5,532,344	£5,532,344	£5,754,911
Council Tax Base	27,058	27,058	27,330
Council Tax Band D	£204.46	£204.46	£210.57
Council Tax Band C	£181.74	£181.74	£187.17

4.10.2 General Fund balances are projected to be £3.56Million by 2022/23 a reduction of £2.86Million from balances as at 1 April 2017.

General Fund Balances £'000	2018/19	2019/20	2020/21	2021/22	2022/23
Opening balance 1 April	(£5,465)	(£4,096)	(£4,048)	(£3,559)	(£3,497)
Use of/ (Contribution to) Balances	£1,369	£48	£489	£62	(£65)
Closing balance 31 March	(£4,096)	(£4,048)	(£3,559)	(£3,497)	(£3,562)

4.10.3 The projected balances for 2019/20 are higher than the minimum level of risk assessed balances but are £336Thousand lower than the November Financial Security report update, by 2022/23 . This is partly due to the increased ICT costs as set out in paragraph 4.3.1 of the report and other pressures identified.

4.10.4 The Council will need to increase future years General Fund reserves to ensure that there are sufficient future resources not only to enable for a sustainable financial position but to also help facilitate the town centre regeneration including the associated risk of funding the bus station if LEP funding is not released, (2017 resident' survey top priority).

4.10.5 There is also financial risk associated with more innovative Financial Security options versus stopping services and cutting spend. While these options are preferable to reducing/stopping services they may be a departure from 'normal' council operations and require careful implementation and monitoring.

4.10.6 To this end the CFO recommends;

- The ring fencing of £400,000 of business rate growth above the baseline assessment to fund regeneration costs in 2019/20, (para. 4.6.7)
- The retention of £364,830 (January report, £352,600) of business rate gains for 2019/20 in the General Fund, (para 4.6.7)
- The transfer of any further business rate gains in addition to that identified above to the business rate reserve for the reasons set out in paragraph 4.6.7
- The creation of the ICT reserve as set out in paragraph 4.3.6.

4.10.7 The Draft Council Tax resolution is attached to this report in Appendix H.

4.11 Risk Assessment of General Fund balances

4.11.1 The General Fund balances have been risk assessed for 2019/20 and the minimum level of balances required is £2,671,410, (January report £2,681,537).

4.11.2 The risk assessment of balances includes amounts for general overruns in expenditure and losses of income (1.5% of the gross value) and in addition for specific risks.

4.11.3 New risks that have been added to the risk assessment of balances include:

- Increased ICT costs for revenue or capital related over and above that identified in section 4.3.
- Increased capital borrowing costs as a result of the GD3 LEP monies not being released and the bus station requiring funding by SBC due to its key role as a regeneration enabler.
- Reduction in housing overpayment net income as a result of the transition to Universal Credit by claimants.

4.12 Contingency Sums

4.12.1 The Executive will recall that a Contingency Sum needs to be determined by the Council as part of the Budget and Policy Framework in order to avoid the need for Council to consider all supplementary estimates during the course of the year. This contingency sum constitutes an upper cumulative limit during the financial year within which the Executive can approve supplementary estimates, rather than part of the Council's Budget Requirement for the year. A sum of £400,000 is proposed for 2019/20, this remains unchanged from the current year.

4.13 Allocated Reserves

4.13.1 The allocated reserves as at 31 March 2020 are estimated to be £1.561 Million, the allocated reserves are summarised in the following table.

Movements to/from Allocated Reserves £'000					
Allocated Reserve	Balance as at 1 April 2018	Anticipated transfer to/from reserves	Forecast balance as at 31 March 2019	Anticipated transfer to/from reserves	Forecast balance as at 31 March 2020
New Homes Bonus	(£ 690)	£ 573	(£ 117)	£ 56	(£ 61)
Future Town Future Council	(£ 263)	£ 209	(£ 54)	£ 54	£ 0

Movements to/from Allocated Reserves £'000					
Allocated Reserve	Balance as at 1 April 2018	Anticipated transfer to/from reserves	Forecast balance as at 31 March 2019	Anticipated transfer to/from reserves	Forecast balance as at 31 March 2020
Business Rates Reserve	(£ 172)	£ 0	(£ 172)	(£ 275)	(£ 447)
Regeneration Assets	(£ 847)	£ 25	(£ 821)	(£ 3)	(£ 824)
Insurance Reserve	(£ 124)	£ 89	(£ 34)	£ 15	(£ 19)
Regeneration Fund (SG1)	(£ 603)	£ 603	£ 0	(£ 31)	(£ 31)
Town Centre	(£ 28)	£ 28	£ 0	£ 0	£ 0
ICT Reserve	£ 0	(£ 100)	(£ 100)	(£ 78)	(£ 178)
LAMs reserve	(£ 61)	£ 0	(£ 61)	£ 61	£ 0
Planning Delivery Grant	(£ 61)	£ 20	(£ 41)	£ 41	£ 0
Total	(£ 2,849)	£ 1,447	(£ 1,401)	(£ 160)	(£ 1,561)

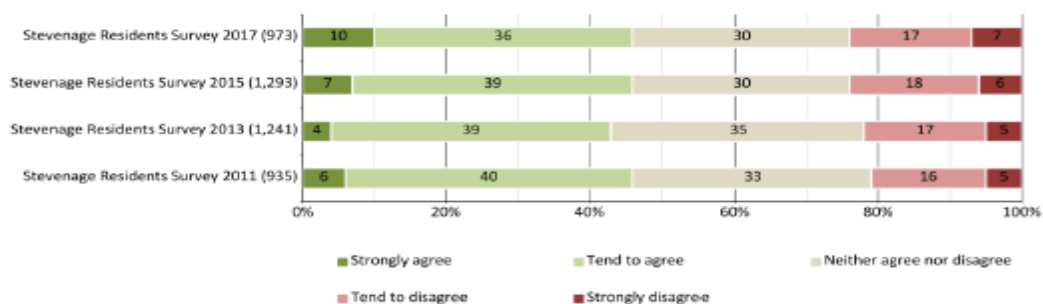
4.14 Consultation

4.14.1 The Council completed the bi-annual resident's survey in 2017 and asked residents a number of questions relating to how the Council conducts its financial affairs. Residents were asked whether the council tax represented value for money and only 7% strongly disagreed as shown in the chart below.

Value for money

To what extent do you agree or disagree that the Council Tax paid to Stevenage Borough Council provides good value for money?

Figure 50: Responses to whether residents agree or disagree that the Council Tax paid to Stevenage Borough Council provides good value for money



4.14.2 Residents were asked how best to make the savings required by ranking the options provided from 1 to 5, with 1 being the most preferred option and 5 being the least preferred option. The results are shown in the table below

Table 13: Resident's preferences for means of making savings. Rank analysis.

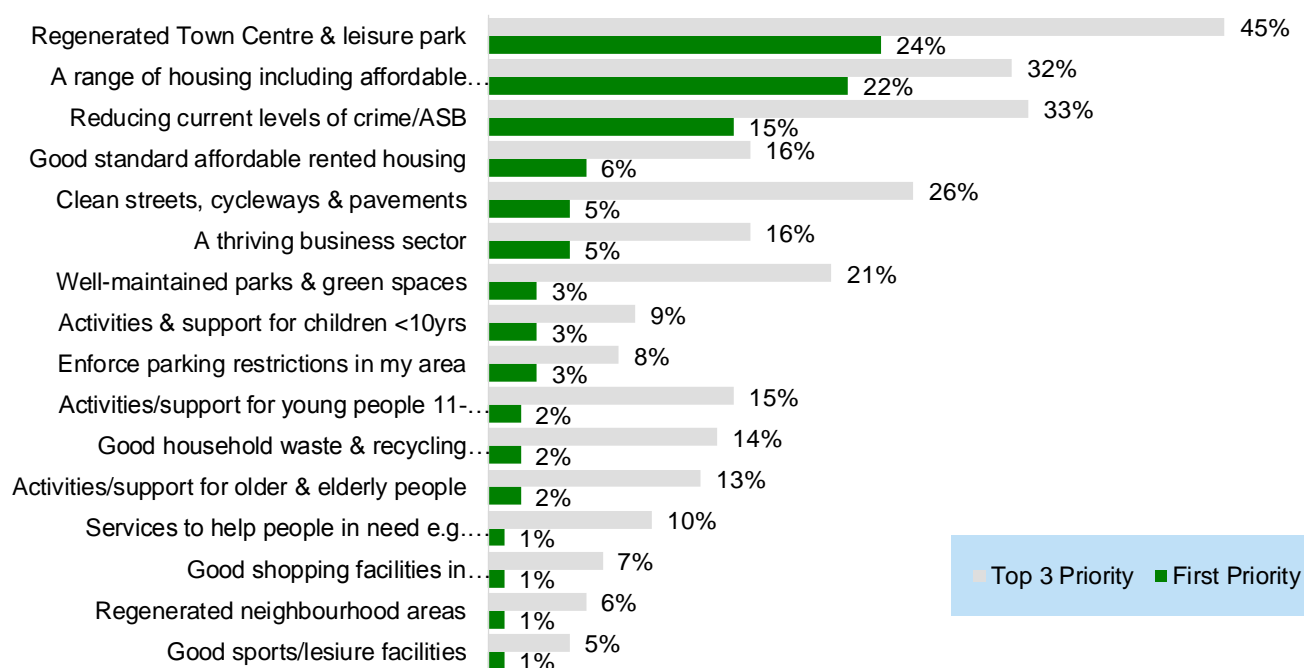
Option	Overall Rank
Reduce time and money spent on paperwork by interacting with more residents and customers online	1
Spend less by reducing or cutting the services that you tell us are not a priority	2
Increase income from fees and chargeable services, to keep the council's element of Council Tax as low as possible	3
Increase our element of Council Tax (for example from 48p per day to 50p per day)	4
Make money by selling more of our services to residents and customers	5

4.14.3 The top ranked option by residents was 'reducing paperwork and interacting with more residents on line'. The Council committed to investing £2.1Million (2018/19-2019/20) in digital improvements that should help unlock future financial security options. In addition the Council has sought to minimise the impact of reduced government funding on Stevenage residents by continuing to reduce net expenditure from some fee increases and efficiency options.

4.14.4 It is evitable, with the level of funding reductions that increases in council tax are required to maintain the level of services the Council currently operates, however the increase of 2.99% on a Band D property represents less than 2pence per day for 2019/20 if approved at February Council.

4.14.5 During 2019/20 officers will be targeting procurement, efficiency and improving processes (three of the five Financial Security work strands) to maintain the financial stability and resilience of the General Fund.

4.14.6 The top resident's priority was Town Centre Regeneration, followed by affordable housing as shown in the following chart.



4.15 Chief Finance Officer's Commentary

- 4.15.1 The Chief Finance Officer is the Council's principal financial advisor and has statutory responsibilities in relation to the administration of the Council's financial affairs (Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988). This commentary is given in light of these statutory responsibilities.
- 4.15.2 The Council has evolved its budget strategy to meet the ongoing challenging economic conditions whether because of funding cuts, welfare reforms or inflationary increases. The financial strategy to deal with this is the 'Financial Security' strand of 'Future Town Future Council'.
- 4.15.3 Officers regularly update the MTFS to ensure that a clear financial position for the Council can be demonstrated over the next five years. This medium term view of the budget gives a mechanism by which future 'budget gaps' can be identified allowing for a measured rather than reactive approach to reducing net expenditure. The Financial Security year round approach to identifying budget options means that work is on-going throughout the year to bridge the gap.
- 4.15.4 The Council has taken significant steps over recent years to balance its budget and one of the principle aims of the MTFS is 'achieve an on-going balanced budget by 2022/23 by ensuring inflationary pressures are matched by increases in fees and income or reductions in expenditure'. This is projected to meet the target by £65,000 return to balances in 2022/23. However there is a significant draw on balances through the MTFS period and a £2.1 Million draw on balances between 2018/19 and 2021/22. This forecast is also reliant on identifying and delivering further savings of £1.2 Million currently unidentified for the period 2020/21-2022/23.
- 4.15.5 The Council while trying to ensure financial stability, is also entering one of its most ambitious phases for some considerable time. The Council is looking to redevelop and regenerate the town centre and at the same time improve the housing market in Stevenage. Both these priorities come with the risk of potentially needing to invest more resources. To mitigate some of this risk some business rate gains are recommended to be ring fenced to meet any future regeneration needs are earmarked for the Council's top priorities.
- 4.15.6 The last few years have seen considerable risk passed from central to local government associated with the localisation of business rates (now 75% and not 100%), localisation of council tax support, and the welfare reform programme. Accordingly, the risk assessment of balances has been updated to reflect these risks as our understanding of the impacts is becoming better understood.
- 4.15.7 Members approved growth in 2018/19 for Business Unit Reviews which while increasing the salary bill for the Council was recommended on the basis the right structure would unlock future savings and help meet the Council's Financial Security targets for 2019/20 onwards.
- 4.15.8 The updated General Fund balances summary in paragraph 4.10.2 shows that in future years there is still a draw on General Fund balances up to 2022/23. This is the

impact of on-going increases in inflationary pressures compounded by projected government funding cuts.

4.15.9 A statement of the Robust of Estimates by the CFO is attached to this report at Appendix G.

4.16 Leaders Financial Security Group

4.16.1 The LFSG chaired by the portfolio holder for Resources on behalf of the Leader and with cross party representation has been meeting frequently since August 2016. The group has;

1. Reviewed the GF assumptions regarding the 2019/20 onwards saving target
2. Reviewed the GF MTFS assumptions
3. Reviewed the GF 2019/20 Financial Security package
4. Reviewed the GF 2019/20 Fees and charges

4.16.2 The LFSG considered the options above and scored the Financial Security options, growth and fees and charges for inclusion in the General Fund budget.

4.17 Overview and Scrutiny

4.17.1 The Committee met on the 29 January 2019 and the Assistant Director (Finance and Estates) presented the draft proposals for the 2019/20 council tax setting and General Fund budget.

4.17.2 The Committee were reminded that the report was before them as a Budget and Policy framework item and any comments will be incorporated into the final budget that the Executive would consider for recommendation to Council in February.

4.17.3 The Committee asked a number of questions about the additional cost of ICT in section 4.3 of the report concerning the investment in ICT and direction of travel, which were answered by the Strategic Director (TP) and Assistant Director Corporate Services & Transformation.

4.17.4 The Committee did not recommend any changes to the draft budget.

5. IMPLICATIONS

5.1 Financial Implications

5.1.1 The report deals with Council policy and finances and as such all implications are contained in the main body of the report.

5.2 Legal Implications

5.2.1 The Council is required to set a balanced budget each year. The Local Government Finance Act 1992 requires the Council to estimate revenue expenditure and income for the forthcoming year from all sources, together with contributions from reserves, in order to determine a net budget requirement to be met by government grant and council tax.

5.3 Risk Implications

5.3.1 There are risk implications to setting a prudent General Fund budget if the Fees and charges (Appendix C) and Financial Security options (Appendix D) are not achieved and crucially if future options are not found to meet the targets outlined in the report. The risk to financial security has also been increased as the Council's ambitions have meant significant growth bids and service pressures have been identified above the MTFs assumptions. If this trend were to continue then the General Fund balances would be substantially eroded and potentially beyond the level that would be deemed a prudent level. The Council faces considerable risks with future reductions to central government grant funding and the ever changing landscape of Local Government Finance.

5.3.2 Risk implications are dealt within the body of the report and specifically within sections 4.10, 4.11 and 4.13.

5.4 Equalities and Diversity Implications

5.4.1 In carrying out or changing its functions (including those relating to the provision of services and the employment of staff) the Council must comply with the Equality Act 2010 and in particular section 149 which is the Public Sector Equality Duty. The Council has a statutory obligation to comply with the requirements of The Act, demonstrating that as part of the decision-making process, due regard has been given to the need to:

- Remove discrimination, harassment, victimisation and any other conduct that is unlawful under this Act
- Promote equal opportunities between people who share a protected characteristic and those who do not
- Encourage good relations between people who share a protected characteristic and those who do not.

5.4.2 These duties are non-delegable and must be considered by Council when setting the Budget in February 2019.

5.4.3 To inform the decisions about the Budget 2019/20 officers have begun Equality Impact Assessments (EqIAs) for service-related savings proposals. These are currently in draft form, since they must consider appropriate evidence and the findings of consultation with various stakeholders to inform the decision by Council in February 2019. Where there is a potentially negative impact, officers will collect further information and identify actions to mitigate the impact as far as possible. These EqIAs are summarised and attached in **Appendix E** with further information on the process to date and planned activity. EqIAs for future years' savings will be presented alongside the draft Budget for the relevant year.

5.4.4 An overarching EqIA will also be developed once individual EqIAs are finalised for Council in February 2019. This will consider the collective impact of the Budget on people with protected characteristics.

5.4.5 As well as considering the impact on service delivery and equality, an EqIA concerning all strands of potential discrimination will be required by the Head of Paid Service on proposed redundancies and restructures per savings proposal and as a whole. It is proposed that this will be produced alongside the required restructure consultation documents as it is only at this stage that the actual impact on staff will start to be known. As the proposals will be delivered over a range of different timescales, the whole, i.e. combined EqIA, will be reviewed periodically with the Council's Strategic Management Board. All staff impacts are summarised at Appendix F.

BACKGROUND DOCUMENTS

BD1 General Fund Medium Term Financial Strategy (2018/19-2021/22)

BD2 Draft General Fund and Council Tax setting report –January Executive

BD3 Final HRA and Ren Setting Report –January Executive

APPENDICES

A General Fund Summary

B Risk Assessment of Balances 2019/20

C Fees and Charges 2019/20

D Financial Security Options 2019/20

E Equalities Impact Assessment General Fund and HRA

F Equalities Impact Assessment staffing

G Robustness of Estimates

H Draft Council Tax Resolution