

Budget Strategy 2020-21 and beyond

The Reason for the Decision	This Budget Strategy sets out the guidelines for preparing the 2020-21 Budget. The Strategy takes account of current and future financial issues, sets out assumptions and initial proposals for delivering a balanced budget in 2020-21.
Summary of options considered	Included in this report is an update on the current economic position and developments in national policy, which give rise to specific impacts on local government funding. This, along with in year budget monitoring information and emerging issues, will inform the development of the budget and medium term financial plan.
Recommendations	<ul style="list-style-type: none">• That the significant financial challenges that the Council faces be noted• To note the planning assumptions for building the 2020-21 budget• To undertake a public consultation on budget proposals
Financial / Resource Implications	This report summarises the financial position over the medium term, and the measures that have been taken to mitigate the impact of reduced funding levels.
Legal Implications	There is a statutory requirement to set a balanced budget.
Community Safety Implications	None
Health and Safety and Risk Management Implications	<p>The budget contains provision for the Council to discharge its obligations under health and safety legislation, and to maintain a reserve in order to manage risks.</p> <p>There are also risks that the Council will not be able to operate within agreed budgetary provisions but this can be minimised by the financial monitoring process and by the prudent policy on the level of reserves and balances.</p>
Equality Duty considered / Impact Assessment completed	As part of the budget growth and savings bids process.
Wards Affected	All

The contribution this decision would make to the Council's priorities

The revenue budget is set to support the Council in achieving priorities through the Council Plan and to facilitate control of expenditure on its activities.

Is this a Key Decision

Yes

Portfolio Holder

Councillor Mike Johnson

Lead Officer

Catherine Nicholson, Head of Financial Services
01900 702503
catherine.nicholson@allerdale.gov.uk

Report Implications (Please delete where applicable).

Community Safety	N	Employment (external to the Council)	N
Financial	Y	Employment (internal)	N
Legal	Y	Partnership	N
Social Inclusion	N	Asset Management	N
Equality Duty	Y	Health and Safety	N

Background papers: Budget working papers in Financial Services, Budget Timetable, updates from MHCLG etc.

1.0 Introduction

- 1.1 This report is the first of the Council's budget setting process for 2020-21 onwards. It sets out the financial pressures that the Council is likely to face in the coming years and suggests an appropriate strategy to ensure that this authority remains financially stable over the long term.
- 1.2 The report is informed by the latest information from Government and from discussions with the Portfolio Holders and Heads of Service via the Budget Review meetings. The budget setting process is an ongoing annual exercise that determines the financial plans for current and future years and is informed by the Council's priorities as set out in the Council Plan.
- 1.3 The Council recognises that, like all local authorities, it has faced significant reductions in funding since the Spending Review of 2010 and the next few years will see continued pressure on the Council's finances. In order to do the best for our communities and find ways of making the money work better this Council is setting an objective in the Council Plan to be self-sufficient by 2030.
- 1.4 The Executive has adopted a new approach to financial management through the establishment of the Budget Review groups. The focus of these groups will be to move from reviewing the budgets in a detailed manner to one that focuses on the services that are delivered and the level of these services.

- 1.5 The financial strategy over the last few years has worked well in delivering a balanced budget whilst managing the significant reductions in government funding. There is a well-planned approach to budget setting and the budget process considers:-
- The Council's priorities – what does it want to do, to what standard and what results does it want to achieve.
 - The level of funding anticipated from Government.
 - Income that can be generated through fees and charges, such as new and increased prices.
 - The levels of balances required for financial prudence and to proactively manage the Council's risks.
 - The methods of service delivery that will deliver value for money.
 - Stakeholder consultation.
- 1.6 This report details the key assumptions that have been adopted as part of the Medium Term Financial Plan and the foundation for the detailed budget position for 2020-21, which will be considered by Executive in February 2020 for Council approval in March 2020.
- 1.7 This strategy represents the first stage of the budget setting process for 2020-21 and many of the figures involved will be subject to significant review in the coming months before final approval by Council. They are however based upon the most up to date assumptions at the time of writing.

2.0 Funding Projections – Spending Round 2019

- 2.1 The Government previously stated its intention to hold a new Spending Review in 2019, covering the period 2020-21 to 2022-23. However, with the current political turbulence around Brexit, it was announced that a one-year Spending Round would be provided, covering the financial year 2020-21, and that this would be followed in 2020 by a full Spending Review, reviewing public spending as a whole and setting multi-year budgets.
- 2.2 The publication of a Spending Round which covers one financial year only is a departure from the norm that has been established over the last decade. In essence, this is the result of political and financial uncertainty surrounding Brexit, which has meant the government has been unable to produce the Spending Review as originally planned. This is also a Spending Round where there are no recent or updated forecasts from the Office for Budget Responsibility, and therefore, spending commitments are based on fiscal forecasts produced back in March 2019.
- 2.3 Reflecting the one-year Spending Round and the plans for a more substantial review next year, the Government propose to implement a “roll-forward” settlement for 2020-21 – ie increase elements of core settlement funding in line with inflation and maintain key grants at 2019-20 level

Settlement Funding Assessment	2020-21 £000
Revenue Support Grant	200
Baseline funding	3,656
Total	3,856
Rural Services Delivery Grant	326

Longer term projections

- 2.4 The funding position post 2020-21 remains uncertain due to the decision to delay major reform until 2021-22.
- 2.5 The Government has previously announced an ambitious programme of reforms to the local government finance system. These reforms include:
- Increasing the proportion of business rates retained by the sector
 - Introducing reforms to the business rates retention system
 - And reviewing the funding formula
- 2.6 The current government remains committed to reforming local government finance and in 2020 it plans to carry out a multi-year Spending Review, which will lay the groundwork for reforms. Their intention is to implement these reforms in 2021-22, including a full reset of business rates retention baselines.
- 2.7 Each of the reforms could individually have significant financial implications for us and could include:-
- A decrease or increase in the size of baseline need set for Allerdale
 - A change in the current percentage share of local business rates income after 2021-22, compared to the current share
 - Changes to the levels of financial reward or loss arising from business rates retention – including any future pooling arrangements etc.
- 2.8 There may be transitional arrangements in place to address the impact of these reforms – but again these are unknown at this stage. All adding to the level of uncertainty about how significant the financial impact will be.
- 2.9 This Council has previously set up a Volatility Reserve to cushion the impact of changes to the Council’s funding as set out in 2.3 above. It is, however, likely that additional reserves will be needed if the level of reduction is severe.

New Homes Bonus

- 2.10 The New Homes Bonus (NHB) was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. Although it was successful in encouraging authorities to support housing growth, it did not

originally reward those authorities who were the most open to growth. In December 2016 following consultation, the Government announced a number of reforms:

- Reduction in the number of years NHB payments made (known as legacy payments) from 6 to 5 years in 2017-18 and then down to 4 years from 2018-19
- Introduction of a national baseline for housing growth of 0.4% of council tax base (weighted by band) from 2017-18, below which NHB would not be paid.

- 2.11 As part of the roll-forward settlement the Government proposes to retain the top slice of Revenue Support Grant to fund NHB payments in 2020-21. In addition to funding the legacy payments associated with previous year's allocations, the Government is minded to make a new round of allocations for 2020-21.
- 2.12 The intention is to retain the option of adjusting the baseline (0.4%) to reflect significant housing growth and spending limits. Proposals on this will be released alongside the provisional settlement.
- 2.13 The Government have indicated that they intend to relook at the New Homes Bonus and explore the most effective way to incentivise housing growth. As the roll-forward is for one year only they have stated that any additional 2020-21 allocations will not result in legacy payments being made in subsequent years on those allocations. Forecast additional NHB for 2020-21 should the 0.4% baseline remain is estimated at £202k.
- 2.14 The estimated amount receivable from previous legacy payments (ie pre 2020-21) is as follows:-

Table 1: New Homes Bonus Grant

Year	Year of Payment (Allerdale Borough Council Share)				
	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
1	457				
2	179	179			
3	91	91	91		
4	111	111	111	111	
Total	838	381	202	111	0

Business Rates

- 2.15 Under the current business rates retention scheme, 40% of business rates (NNDR) collected is retained by the Council. The remainder is paid to Central Government (50%) and Cumbria County Council (10%). The scheme also provides that certain sums are to be treated as being outside the scheme and retained in their entirety by the Council. The Council is also able to retain the growth in the local share of business rates subject to the payment of a levy to central government designed to prevent disproportionate increases in the Council's funding as a result of growth in business rates income.

- 2.16 A system of top-up and tariffs ensures the Council's share of estimated business rates income (business rates baseline) does not exceed the level of funding to be provided through the business rates retention scheme (baseline funding). Tariffs and Top-Ups and baseline funding levels are indexed each year in line with the small business rates multiplier.
- 2.17 Given the planned delay in implementing increased business rates retention, the government proposes not to alter the existing mechanism for determining tariff and top-up payments in 2020-21
- 2.18 The amount of business rates income available to the general fund and taken into account when setting the budget is based on an estimate made in January preceding the start of the financial year. This estimate of business rate income reported in the government return NNDR1, also determines how much the Council must pay to central government and the County Council during the course of the year.
- 2.19 Local authorities have the option of working with neighbouring authorities to form a business rates pool. Allerdale has been part of the Cumbria Business rates pool since its inception and has expressed its intention to continue in this pool for 2020-21.

Council Tax

- 2.20 The reductions in income from central government funding means that there is now an increased importance on Council Tax as a means of raising income. This means that the decisions taken now in relation to Council Tax levels are critical to the delivery of a sustainable MTFP.
- 2.21 The tax base increases each year due to the general increase in the number of residential properties and future developments together with the ongoing work to ensure the validity of council tax discounts awarded. The increased tax base results in additional Council Tax income.
- 2.22 The Council has the ability to set any level of Council Tax increase, however, the Government has proposed a trigger point for council tax referendums so that any excessive increases are put to the local electorate for approval. Any authority proposing an excessive increase in council tax must hold a local referendum and obtain a "yes" vote before implementing the increase. Over recent years the Government has set the maximum increase in council tax before a referendum must be called, at 2%. For 2019-20 this was increased to the highest of 3% or £5.00.
- 2.23 Proposed thresholds have been published for the 2020-21 financial year, but these are not certain at the time of writing due to the snap December 2019 General Election. The
- 2.24 The assumption the medium term is that Council Tax will be increased year on year by as Allerdale residents have supported this level of increase, and for planning purposes this increase is at 1.9%.

Interest Rates

- 2.25 Investment returns are likely to remain low during 2020-21 with little increase in the following two years. However, if major progress is made with an agreed Brexit, then there is upside potential for earnings.
- 2.26 The Council's treasury advisors, Link Asset Services, undertook its latest review of interest rate forecast on 5 August following the quarterly Bank of England Inflation Report and the decisions and forward guidance issued by the Bank's Monetary Policy Committee (MPC) at its meeting on 1 August. Their forecast is predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. However, given the current level of uncertainties, this is a major assumption and forecasts may need to be materially reassessed in the light of events over the coming weeks or months.
- 2.27 After increasing the Bank rate from 0.5% to 0.75% in August 2018, the Bank of England has left the rate unchanged at 0.75%, so far in 2019, due to the ongoing uncertainty over Brexit. It is unlikely that the Bank will take any further action until the uncertainties over Brexit clear. If there were a disorderly exit, it is possible that the Bank Rate would be cut to support growth, but this is by no means certain. The uncertainties surrounding the nature of EU withdrawal mean the UK economy could follow a wide range of paths over coming years. In response, the appropriate path of monetary policy will depend on the balance of the effects of Brexit on demand, supply and the exchange rate, with the Bank of England stressing that the monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. Any increases in the bank rate are however expected to be at a gradual pace and to a limited extent.
- 2.28 The current forecast is for a 25 basis point (bp) increase in the Bank Rate in Quarter 4 (Sept- Dec) 2020 and for a second increase of 25bp in Quarter 1 2022. The pace and size of these limited increases in the Bank Rate is however dependent on a reasonably orderly Brexit. As events unfold any departure from this central assumption could result in 25 to 50 bp movements at anytime.
- 2.29 As for borrowing rates, whilst geo-political events, sovereign debt issues and emerging market developments can all contribute to short-term volatility in financial markets, the overall longer run trend for gilt yields – and therefore PWLB rates – is for rates to rise, albeit gently, over short and longer term forecast horizons. PWLB rates also remain subject to ad hoc decisions by HM Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9 October this year.

3.0 Financial Pressures – expenditure

Employee Pay

- 3.1 Local authority employees are now coming to the end of a two-year pay deal, which included a 2% increase each year, with more for the lowest paid. The unions have presented their pay claim to the local government association and a decision was expected in the autumn. This is still outstanding.

- 3.2 The assumption in our strategy will be to continue with a 2% increase across the board.
- 3.3 The cost of staffing is one of the highest costs to the organisation. The constant change we face in local government means we have to recognise that existing jobs can change substantially or disappear. It is important that we review all opportunities for business efficiency and ensure that we have in place appropriate compensatory packages for those who leave the organisation.

Employee Pension Fund

- 3.4 The provisional results of the 2019 Valuation have been indicated that our primary contribution rate is expected to increase from 14.5% to 18.8 %. Based on pensionable pay of £6m this will increase costs by around £258k in 2020-21.
- 3.5 The secondary rate (deficit recovery amount) payment chargeable to the general fund in 2019-20 is £865k. The indicative payment for 2020-21 will be £500k – which is a saving of £365k based on the current indicative amounts.
- 3.6 The increase in the primary rate reflects a more challenging outlook for investment returns over the coming years, whilst the lower deficit recovery amount is underpinned by the significant investment returns (c32%) achieved since the last revaluation. This has in turn contributed to an increase in the funding level from 83% to 93% for Allerdale, and from 91% to 99% for the fund as a whole.
- 3.7 It should be noted that these results may change once the position for all fund employers have been confirmed.
- 3.8 One issue that is likely to adversely impact the valuation is the McCloud judgement. In December 2018, the court of Appeal ruled that there was age discrimination in the judges' and firefighters' pension schemes where transitional protections were given to scheme members. It has since been identified that this ruling is likely to affect Local Government Pension Schemes (LGPS) although the impact had been uncertain due to a potential appeal from Central Government against the ruling. However, the Supreme Court rejected permission to appeal the ruling on 27 June 2019.
- 3.9 As we await the impact of the McCloud judgement on the Cumbria Pension Fund valuation, no additional savings are to be offered at this point as the potential impact of this could add another 1% to costs.

Asset Maintenance

- 3.10 Any asset maintenance expenditure is funded by the revenue budget each year. This expenditure can fluctuate as the demand for programmed and ad hoc work varies across our operational buildings. Investment in our buildings has been impacted by the need to find savings in our base budgets since the Spending Reviews commenced. A review of the asset maintenance requirements for all council owned properties is to be carried out and the budgets will be reviewed against as part of the budget cycle.

Borrowing and Minimum Revenue Provision (MRP)

- 3.11 Any general fund requirement for borrowing to fund capital works creates a need for a Minimum Revenue Provision. This is a charge to the General Fund to represent a prudent provision for the repayment of borrowing.
- 3.12 In previous years where the capital programme has largely been funded by external grants or revenue reserves, then the impact of MRP on the revenue budget has been minimised.
- 3.13 As the capital programme expands and the approval for borrowing increases, then there will be additional MRP requirements. Where borrowing is required the impact of MRP upon the revenue budget will be considered as a fundamental part of the planning for the capital scheme.
- 3.14 The Authority has historically relied on the PWLB as its primary source of funding. However, an overnight increase in the rates by a whole percentage point back in October, has now made this a less attractive option. Going forward alternative sources of borrowing will need to be more actively considered.
- 3.15 This strategy does not consider the detail of the capital programme. All details on the proposed capital schemes will be set out in the Capital Investment Strategy, the Treasury Management Strategy and comply with the requirements of both the Prudential Code and the Treasury Codes. The detail will be included within the full budget report.

Inflation

- 3.16 The Consumer Price Index (CPI) measure of inflation has remained close to the Bank of England's target of 2% during 2019, but fell to 1.7% in August and September. RPI inflation, typically around 0.8% above CPI, started the year at 3% before falling gradually from June to reach a rate of 2.4% in September.
- 3.17 Current Bank of England forecasts are for CPI inflation fall temporarily below the MPC's 2% target over the second half of 2019 as energy prices decline. The Bank's forecasts are conditioned on a smooth withdrawal of the UK from the EU and a reduction in Brexit-related uncertainties over the forecast period. Coupled with a boost from looser monetary conditions, the decline in uncertainties is expected to lead to a recovery in demand growth to robust rates. As a result, excess demand and domestic inflationary pressures are expected to build with CPI inflation picking up gradually to around 2.4 % by 2022.
- 3.18 In the event of a no deal Brexit and further depreciation of sterling a rise in the level of imported inflation could see inflation rise towards 4%.
- 3.19 The latest Office for Budget Responsibility's forecast (published in March 2019) is for CPI inflation to fall below the to around 1.9% in 2020 and return to 2% thereafter.
- 3.20 Inflationary increases are not applied to operational service budgets unless there is a contractual requirement to apply inflationary uplifts to contract prices.

Unavoidable service pressures

- 3.21 The Council has faced unprecedented reductions in its funding levels since the Spending Round 2010 and to date has coped well by making improvements and efficiencies whilst protecting front line services. Given that these financial pressures are set to continue, it is clear that this is not a sustainable approach. Our future operating model and response to these pressures means we have to be more innovative in order to achieve our strategic priority of becoming financially self-sufficient by 2030.
- 3.22 There is always the potential for unplanned and unavoidable expenditure and when these emerge there needs to be a clear strategy for dealing with these additional pressures throughout the year.
- 3.23 Heads of Service and Portfolio Holders will be responsible for monitoring and putting plans in place to limit or reduce any additional budget pressures and the Budget Review Group meetings will discuss these issues.
- 3.24 A general contingency provision of £100k will continue to be made in the recurring base budget.

4.0 Updated Medium Term Financial Position

- 4.1 Following the revised budget and the expectations of the provisional local government finance settlement, the updated MTFP is as set out below. This is the starting point for the next round of Budget Review Meetings, which have now commenced.

Budget	2019-20 revised £	2020-21 £	2021-22 £	2021-22 £
Base Budget	11,533,045	11,448,929	12,419,292	12,482,292
Change in salary	102,874	43,363	182,000	182,000
Additional Capital Financing Costs	613,179	(104,000)	81,000	(31,000)
Recurring growth	484,378	1,231,000	300,000	300,000
Recurring savings	(1,284,547)	(200,000)	(500,000)	(500,000)
Recurring (base) budget	11,448,929	12,419,292	12,482,292	12,433,292
Change in salary costs - non-recurring	24,656	0	0	0
Non-recurring growth	2,373,157	855,000	200,000	200,000
Non-recurring savings	(363,587)	(52,000)	(50,000)	(50,000)
Net Service Expenditure budget	13,483,155	13,222,292	12,632,292	12,583,292
Expenditure on earmarked priorities	1,462,176	0	0	0
Proposed budget (excl. parish precepts)	14,945,331	13,222,292	12,632,292	12,583,292
Parish Precepts	2,197,940	2,197,240	2,197,940	2,197,940
Proposed Budget (incl. parish precepts)	17,143,271	15,420,232	14,830,232	14,781,232
Less: Planned use of earmarked balances	(1,462,176)	0	0	0
Net Budget Requirement	15,681,095	15,420,232	14,830,232	14,781,232

Funding	2019-20 £	2020-21 £	2021-22 £	2022-23 £
Revenue support grant	196,187	199,522	0	0
Rural Services Delivery Grant	325,556	325,556	0	0
Other government grants (New Homes Bonus)	838,075	583,155	202,308	111,430
Council tax – Allerdale only	5,304,296	5,405,078	5,507,774	5,612,422
Council tax – parish element	2,197,940	2,197,940	2,197,940	2,197,940
Collection fund surplus/(deficit) - Council Tax	36,547	0	0	0
NNDR funding	5,699,929	5,913,481	4,700,000	4,800,000
Release of earmarked reserves	678,000	0	0	0
Use of General Fund Reserves	404,565	0	0	0
Total funding	15,681,095	14,624,732	12,608,022	12,721,792
Funding Gap/(surplus)	0	795,500	2,222,210	2,059,440

4.2 The senior management team and the Budget Review Group will continue to challenge the budget proposals as they are being developed. We also await the announcement of the Provisional Local Government Finance Settlement and the proposals from 2021 onwards.

5.0 Budget Consultation

5.1 The objectives for consulting on the 2020-21 budget proposals are to:

- Engage with local residents and key stakeholders
- Inform on how we have met the budget challenges so far
- Set out our future ambitions and projects
- Seek feedback on general spending and income generation priorities
- Seek feedback on specific budget proposals for 2020-21

5.2 The consultation will set out the financial challenge facing the Council and look at options for making the budget balance and our approach and strategy. It will also take into account results from last year's Residents Survey where we asked questions about prioritising spend and the approach to making savings and increasing income.

5.3 As well as asking specific questions around Council Tax and Fees and Charges increases, the consultation will focus on proposals around growth and a balanced approach to risk.

6.0 Legal Implications and Risks

6.1 A summary of the perceived risks is as follows:-

Risk	Impact	Likelihood	Mitigating Action
Assumptions may be inaccurate	4	2	Regular budget monitoring. Review assumptions and national issues
Local Government Settlement different	4	2	Working with LG Futures on implications and Cumbria CFO group on funding outlook

7.0 Recommendations

7.1 This report makes the following recommendations:-

- That the significant financial challenges that the Council faces be noted
- To note the planning assumptions for building the 2020-21 budget
- To undertake a public consultation on the budget proposals

8.0 Conclusion

- 8.1 The budget planning process has ensured that this Council has addressed the many difficult financial challenges that it has faced since the Spending Review 2010 in a logical and considered manner.
- 8.2 The next few years we will see continued pressure on the Council's finances, and in order to do the best for our communities the Council is setting an objective in the Council Plan to be self-sufficient by 2030.
- 8.3 With that in mind the plan will be to develop a 10-year budget to ensure that the Council is well placed to deal with the financial challenges ahead. Becoming self-sufficient will enable us to have a greater control over our destiny.
- 8.4 The Council will continue to use a range of approaches to address the deficit in the short and medium term, including:-
- Pursuing alternative income streams
 - Making the most of commercial opportunities
 - Growing the local economy
 - Using digital technologies to transform services
 - Reviewing all services to generate efficiencies
 - Consider the use of reserves to help manage year on year variations in income and expenditure
- 8.5 The budget setting process has largely been successful in delivering a balanced budget and engaging with the public. There are always alternatives, but ultimately the Council must produce a budget which meets its statutory responsibilities.

Catherine Nicholson
Head of Financial Services