

2020/21 BUDGET AND MEDIUM TERM FINANCIAL PLAN 2020 - 2024

Head of Service/Contact:	Lee Duffy, Chief Finance Officer
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	
Annexes/Appendices (attached):	Annexe 1: Summary of 2020/21 Estimates Annexe 2: Draft Medium Term Financial Plan 2020-24 Annexe 3: Key Components of the Medium Term Financial Strategy 2020-24 Annexe 4: Efficiency Plan 2020-24
Other available papers (not attached):	Draft Budget Book 2020/21 Policy Committee Budget Reports 2020/21

Report summary

This report provides an update on the preparation of the budget for 2020/21. The report seeks any final guidance from the Panel prior to the preparation of the Budget and Council Tax report for the Council on 13 February 2020. The report also seeks final guidance on the Medium Term Financial Plan for 2020-2024, including assumptions on future government funding.

Recommendation (s)

That the Panel :

- (1) Provides the Chief Finance Officer with any further guidance needed on the presentation of the 2020/21 Budget and Council Tax report and on the Financial Plan 2020-2024.**
- (2) Notes the provisional Government financial settlement for 2020/21.**
- (3) Supports that the surplus business rates income generated in 2018/19 from being part of the Surrey Pilot is set aside to mitigate the future impact of the 'Fair Funding Review'.**
- (4) Notes that the Council was successful in its attempt to be part of a Surrey Pool for Business Rates income for 2020/21.**

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- (5) Confirms support that there will no use of working balances (general fund reserve) in the 2020/21 budget.**
- (6) Agrees to support a recommendation to Council of a council tax increase of £4.95 for a Band D property, equivalent to an annual increase of 2.5%.**
- (7) Confirms support for the Financial Plan 2020-24 and Medium Term Financial Strategy.**

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

1.1 The Strategy and Resources has agreed the following key service priority:-

- Prepare new Medium Term Financial Strategy and Four Year Financial Plan (2020-2024) including a 10 year forecast on the Council's future financial position.

2 Introduction

2.1 Service estimate reports have been prepared for each of the three policy committees. The estimates are contained in the draft Budget Book 2020/21 which has been issued to all Councillors.

2.2 The estimates were prepared on the basis of budget guidelines agreed by the Council last September.

2.3 The overall budget target for 2020/21 was agreed at Strategy & Resources Committee on 24 September 2019 as follows:-

- Estimates are prepared including options to reduce organisational costs by £544,000 subject to government grant announcement, to minimise the use of working balances and maintain a minimum working balance of £2.5million in accordance with the Medium Term Financial Strategy.
- That at least £290,000 additional revenue is generated from an increase in discretionary fees and charges, based on a minimum overall increase in yield of 3.0%, with the exception of car parking which is set at 6.0% as these charges are adjusted every two years.
- That a provision for pay award is made of £400,000 that allows for a 2% cost of living increase.

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- That further savings are identified for inclusion within the medium term financial strategy for 2020-24 to reduce the Council's net operating costs by a minimum of £1,825,000 over the period 2020/21 to 2023/24.
- That Capital Member Group seeks to maintain a minimum capital expenditure programme to control the use of capital reserves between 2020 and 2024, subject to an appropriate prioritisation of spend to save and externally funded schemes.

- 2.4 The funding of the capital programme was agreed in December, subject to schemes being supported by the policy committees in the January Committee cycle.
- 2.5 Subject to the decisions of the policy committees, the proposed increases to discretionary fees and charges are estimated to generate £353,000 in 2020/21.
- 2.6 This report provides details of the provisional local government finance settlement and seeks guidance from the Panel on the presentation of the budget and council tax report for 2020/21.
- 2.7 The report also seeks guidance on finalising the Financial Plan 2020-2024.

3 2020/21 Provisional Government Settlement

- 3.1 Details of the provisional local government finance settlement were sent by e-mail to all councillors on 24 December 2019.
- 3.2 The following table shows the provisional grant figures for 2020/21:-

	2019/20	2020/21
	£'000	£'000
Revenue Support Grant	0	0
Retained Business Rates – Baseline	1,397	1,420
Settlement Funding Assessment	1,397	1,420

- 3.3 As announced by the Chancellor in September the Government has delayed the 'Fair Funding Review', 'Business Rates Review' and business rates reset until 2021/22.

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- 3.4 The impact on Council funding from delaying the business rates reset results in the Council retaining its surplus levels of business rates income above its baseline for one more year than expected. This is estimated to be worth £197,000 to this Council for 2020/21.
- 3.5 The delay on the two Government Reviews means that the Council maintains its level of core funding for 2020/21 increasing by £23,000 or 1.6% on 2019/20. However, the anticipated changes from the Fair Funding Review are expected to reduce funding significantly as Negative RSG payments, removed by Government within the last two financial settlements are likely to feature as part of the new settlement for 2021/22.

4 New Homes Bonus Grant

- 4.1 The Council additionally benefits from the award of New Homes Bonus grant, based upon the number of new residential properties in the borough in the preceding year, with a supplement for affordable housing.
- 4.2 The methodology for this grant allocation was changed in 2017/18 by Government which resulted in a significant reduction in funding allocations from 2018/19. Originally the Council received a rolling 6 years of individual allocations; this was reduced down to 4 years in 2018/19 alongside a further reduction by only awarding funding for growth in homes above the 0.4% per annum baseline.
- 4.3 As part of the provisional settlement for 2020/21 it was announced that from 2021/22 funding methodology would change for new homes bonus grant and legacy payments would be removed from the annual award by 2023/24.
- 4.4 The budget for 2019/20 removed any reliance on New Homes Bonus Grant as a source of funding to support on-going services and all New Homes Bonus Grant funding is transferred to the Corporate Project Reserve to fund one off projects.

	2019/20 £'000	2020/21 £'000
2016/17	158	
2017/18	46	46
2018/19	219	219
2019/20	21	21
2020/21		100
	444	386

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- 4.5 The amount of funding available from New Homes Bonus has diminished substantially over the last few years, in 2016/17 the Council received in excess of £2 million, this will reduce to £386,000 for 2020/21.
- 4.6 Included with the Settlement, Government also announced a future change to the award of New Homes Bonus Grant, from 2021/22 legacy payments will be reduced and removed completely by 2023/24 from the annual awarded grant.

5 Core Spending Power

- 5.1 In its spending announcements the Ministry of Housing, Communities and Local Government also refers to changes in 'spending power'. This is a term used to measure the impact of all government grant changes on local authority budgets. Core Spending Power is different from Government funding as this includes income received from council tax and New Homes Bonus Grant.

	2019/20 £'000	2020/21 £'000
Grants		
Retained Business Rates	1,397	1,420
Total Grant Funding	1,397	1,420
New Homes Bonus	444	386
Council Tax *	6,558	6,762
Other Funding	7,002	7,148
Core Spending Power	8,399	8,568

* figure from provisional financial settlement

- 5.2 Nationally there is an increase in spending power for 2020/21 of 6.3%. However, for Epsom and Ewell Borough Council's spending power will increase by £169,000 or 2.0%.

6 Budget Overview

- 6.1 The service estimates, as recommended to the policy committees, are contained in the Budget Book 2020/21.
- 6.2 The Budget Book currently shows no use of working balances and no use of New Homes Bonus grant to fund services.

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- 6.3 The Budget Book includes a £200,000 contribution from revenue to assist in the funding of the annual capital programme.
- 6.4 The funding position included within the Budget Book does not reflect the financial benefit receivable from being in the Surrey Business Rates Pool for 2020/21, as any gain will be set-aside in reserves to mitigate the impact of the 'Fair Funding Review'.
- 6.5 The budget funding position for 2020/21 reflects the Government decision to remove the Negative RSG payment of £625,000 within the provisional financial settlement for 2020/21.
- 6.6 The 2020/21 budget includes an increase in homelessness costs by £391,000 which has been partly funded by allocation of £116,000 from Flexible Homeless Support Grant.
- 6.7 The budget includes a provision of £400,000 for the annual increase in staff pay and a further £150,000 for increased employer pension fund contributions as a result of the latest Pension Fund tri-annual review.
- 6.8 The Strategy and Resources Committee budget currently includes a £50,000 general contingency to mitigate any unforeseen costs in implementing changes to services identified as part of the 2020/21 budget process, or due to unforeseen additional expenditure on agreed policies and priorities. This budget reduces the need for services to hold their own individual contingencies.

7 Funding Received from Commercial Property Company (EEPIC)

- 7.1 Council agreed on 19th September 2017 to set up a Local Authority Property Investment Trading Company with one of its primary objectives to enable the acquisition of investment properties outside the Borough that will generate additional income for the Council.
- 7.2 Since the inception of the Company (EEPIC), the company has acquired two properties outside the Borough and these are expected to deliver a benefit to the Council's General Fund for 2020/21 of £905,000.
- 7.3 From 01 April 2018, new Statutory Guidance on Local Government Investments was introduced by MHCLG. The new guidance means that future acquisitions that are funded by borrowing and where the intention is purely to profit from the investment, would not meet the requirements of the guidance in terms of borrowing.
- 7.4 This does not impact on the two out-of-Borough purchases already made through EEPIC in 2017, since they occurred before the new guidance took effect this financial year.

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8 Retained Business Rates

- 8.1 Funding retained by the Council from business rates relates to levels of income collectable in year. However, the Government sets a level business rates that should be collectable by the local authority and then determines how much of this can be retained by the Council based on a formula.
- 8.2 In September Epsom and Ewell Borough Council agreed to be considered in a pooling arrangement with Surrey County Council and other Surrey district councils for 2020/21, on the terms that this Council gets to retain a share of the levy payments it currently has to pay to Central Government. The Ministry of Housing, Communities and Local Government agreed to this pooling arrangement in December.
- 8.3 The following table shows an overview of Central Government's calculation for retained business rates and compares that to those included within the 2019/20 budget and the latest forecast.

2019/20	Gov't Baseline £'000	EEBC Budget £'000	EEBC Forecast £'000
Rates Collectable	25,482	24,919	25,031
Less: Payable to Government	-12,741	-12,459	-12,515
Less: Payable to SCC	-2,548	-2,492	-2,503
Epsom & Ewell Share	10,193	9,968	10,012
Less Tariff (Payable to Government)	-8,796	-8,796	-8,796
	1,397	1,172	1,216
Add Grant Funding for Reliefs	0	602	602
EEBC Share of Income prior to Levy	1,397	1,774	1,818
Baseline Funding (Set by Government)	1,397	1,397	1,397
Estimated surplus above	0	377	421
50% Retained by EEBC	0	188	211
Net Retained Business Rates by EEBC	1,397	1,585	1,608

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- 8.4 The latest forecast shows that the Council is expecting to make a surplus of £23,000 on business rates income for 2019/20 when compared to budget.
- 8.5 The Business Rates Collection fund carried forward a surplus of £1.4 million for Epsom and Ewell Borough Council from being part of the Surrey Pilot for 2018/19 and the surplus will be repaid to the Council in 2020/21.
- 8.6 The Budget Book currently shows retained business rates income for 2020/21 of £1,617,000 based on provisional rates income figures.
- 8.7 The Panel will note that the safety net threshold for 2020/21 is set at £1,313,000 compared to £1,617,000 used in the draft estimates, this limits the exposure of losses to £304,000.

9 Council Tax Options

- 9.1 It was announced as part of the Government provisional settlement for 2020/21 that District Councils will be allowed to increase their council tax by either £5 per annum (property D equivalent) or up to 2% before needing to hold a referendum. This represents a change from 2019/20 where Councils were able to increase council tax by up to 3% before triggering the referendum limit.
- 9.2 The reduction to the referendum limit has resulted in the Council losing out on potential income from an increase of c3% of approximately £30,000 per annum.
- 9.3 For financial planning purposes, the draft new Medium Term Financial Strategy and Budget Book include an annual council tax increase of 2.5%, which equates to an additional £4.95 per annum or 9½ pence per week for a band D equivalent property.
- 9.4 To the average band 'D' council tax payer (those not receiving discounts or support), the charge for borough services is would increase from £198.36 to £203.31 per property.
- 9.5 For the Council's finances, revenue from council tax provides critical income to pay for services, assisting in replacing funding lost from government revenue support grant and new homes bonus grant.
- 9.6 The Panel supports a 2.5% increase be included in the budget report to full Council, this rise will provide for an additional on-going funding of services of £163,000 per annum, and any reductions in that percentage will have to be met from additional savings.

Increase	Current	2.5%
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Council Tax (Band D)	£198.36	£203.31
Increase per annum	£0	£4.95
Increase per week	0p	9½p
Additional Income Generated 2020/21	£0	£163,000
Adjustment needed to Draft Budget Book	£163,000 Adverse	£0
On-going Income received in Future Years	£0	£163,000

9.7 **Annex 1** comprises an overview of the draft budget for 2020/21 showing the impact of levels of council tax with an increase of 2.5%.

9.8 Surrey County Council's cabinet has proposed a 3.99% council tax increase to help their future funding position. The Surrey County Council and Surrey Police Authority charges (precepts) will be determined early in February.

10 Capital Programme and Level of Capital Reserves

10.1 The Draft Capital Programme for 2020/21 recommended by FPP in December totalled £1,508,000 with £651,000 of schemes from capital reserves and £234,000 from revenue. If the Programme is to be funded in this way it will reduce the level of uncommitted capital reserves down to £2.1 million by the end of 2020/21.

10.2 The Council agreed within its current Medium Term Financial Strategy to maintain a minimum level of capital reserves of £1 million.

10.3 The draft new Financial Plan includes an additional £100,000 of funding each year from revenue over the next four years to provide resources for a sustainable capital programme.

11 Financial Plan 2020 -2024

11.1 The Financial Plan at Annexe 2 has been prepared to provide context for the Medium Term Financial Strategy.

11.2 A final draft of the Medium Term Financial Strategy is contained in Section 1 of the Financial Plan (page 6 of Annexe 2).

11.3 The Panel are asked to recommend the Financial Plan 2020-24 and Medium Term Financial Strategy for approval by the Council.

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12 Financial Forecasts 2020/21 to 2029/30

- 12.1 The 2020/21 Budget does not require the use of any of our working balances to achieve a balanced budget.
- 12.2 2020/21 represents the first year of the new Medium Term Financial Strategy and a 10-year forecast (2020/21 to 2029/30) has been produced that removes the reliance on funding from retained business rates to finance the running of council services. The position also provides funding for a sustainable capital programme from revenue by the end of 2026/27.
- 12.3 To be able to remove reliance on these external sources of funding the Council will need to deliver additional savings or income of around £2.8 million by the end of 2029/30.

13 Local Government Settlement

- 13.1 Any changes in the finalised local government finance settlement will be made available to the Panel, once they have been issued or reported to all councillors if not available for the meeting.

14 Financial and Manpower Implications

- 14.1 The forecast budget position for 2020/21 is summarised in this report.
- 14.2 The planned transfers to reserves are as follows:-
- 14.3 The revenue budget incorporates a transfer of £1,380,000 to the Business Rates Equalisation Reserve a share of the financial gain generated from being in the Surrey Pilot in 2018/19, to be used to mitigate the impact of changes to future funding as a result of the 'Fair Funding Review';
- 14.4 The draft Capital Programme for 2020/21 recommends using approximately £651,000 of capital reserves and £234,000 of revenue to fund capital schemes.
- 14.5 There is no use of New Homes Bonus Grant to fund services and the full grant allocation is to be transferred to the Corporate Projects Reserve to fund one-off initiatives.
- 14.6 **Chief Finance Officer's comments:** *As detailed in this report.*

15 Legal Implications (including implications for matters relating to equality)

- 15.1 There are no specific implications arising from the contents of this report.
- 15.2 **Monitoring Officer's comments:** *None for the purposes of this report.*

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16 Proposals

- 16.1 It is requested that the Panel provides the Chief Finance Officer with any final guidance needed to finalise the 2020/21 budget and council tax report.
- 16.2 It is also requested that the Panel recommend the Financial Plan 2020-24 for Council approval.
- 16.3 The Budget and Council Tax meeting is on 13 February 2020.

17 Conclusion and Recommendations

- 17.1 The Council has continued to maintain the provision of services despite a sustained period of significant cuts to public spending.
- 17.2 The 2021/22 Financial Settlement due in December 2020 may show an increase in overall funding for Local Authorities, however it is anticipated that this increase in resources will be targeted at authorities that are responsible for services such as Social Care.
- 17.3 It is anticipated that the 'Fair Funding Review', the mechanism used to determine individual authority settlements will be used to reduce funding for District Councils to finance the increase resources required for social care etc.
- 17.4 The forecast in the Financial Plan assumes that 'Negative RSG' which was previously included within the last four year settlement will feature as part of the funding calculation for 2021/22 for Epsom and Ewell Borough Council.

Ward(s) affected: (All Wards);