Hinckley & Bosworth
Borough Council

FORWARD TIMETABLE OF CONSULTATION AND DECISION MAKING

SCRUTINY COMMISSION/	
FINANCE & PERFORMANCE SCRUTINY	6 FEBRUARY 2020
COUNCIL	25 FEBRUARY 2020

WARDS AFFECTED: ALL WARDS

2019/20 GENERAL FUND BUDGET

Report of Head of Finance

1. PURPOSE OF REPORT

1.1 To seek approval of the 2020/21 General Fund Revenue Budget.

1.2 The General Fund revenue budget has been prepared taking into account the capital and HRA budgets. The capital and HRA budgets are presented separately but should be read in conjunction with this report.

2. RECOMMENDATION

2.1 That the following are recommended for the Council to approve:

- The General Fund budget for 2019/20 and 2020/21 shown in section 3.2
- The Special Expenses area budget for 2019/20 and 2020/21 shown in section 3.4
- The proposed movement in General Fund Reserves and balances for 2019/20 and 2020/21 shown in sections 3.14-3.19

3. BACKGROUND TO THE REPORT

3.1 The General Fund Revenue budget for 2020/21 has been drawn up in accordance with the principles set out in the Budget Strategy and in accordance with the Medium Term Financial Strategy (MTFS) (presented earlier on this agenda). The key objectives of the budget can be summarised as follows:

- To align expenditure on services to the Council's Corporate Plan.
- To provide for reductions in government grant funding for 2019/20 and future years.
- To encourage identification of savings and income generation opportunities across the Council.

- To take decisions which will maintain acceptable and viable levels of General Fund balances and reserves to make provisions for known future funding and expenditure pressures.
- To maintain an acceptable and viable level of balances in the Special Expenses Area.
- To ensure that the Council has acceptable level of reserves for future pressures and development opportunities.
- To keep the charge for garden waste at £24.

Budget Summary

3.2 The original budget for 2019/20, revised budget for 2019/20 (based on October 2019 outturn) and the proposed budget for 2020/21, are set out below. The change in the net service expenditure in 2019/20 is explained in section 3.7 below. Overall an additional £219,866 is budgeted to be taken from balances in 2019/20. In 2020/21 total service expenditure is budgeted to increase by £445,499 compared against the revised budget (An increase of 1.31%).

	Original Estimate 2019/20	Revised Estimate 2019/20	Original Estimate 2020/21
	£	£	£
Support Services	131,295	192,855	13,800
Corporate Services	3,172,110	3,344,836	2,733,840
Community Services	2,472,390	2,728,954	3,093,900
Environment & Planning	7,683,345	7,991,523	8,725,777
Further (Savings) / growths	0	(3,680)	
Total service expenditure (Net)	**13,459,140**	**14,254,488**	**14,567,317**
Less:			
Special Expenses	(627,770)	(627,770)	(697,210)
Capital Accounting Adjustment	(1,934,120)	(1,934,120)	(1,922,220)
Net external interest (received)/paid	185,360	120,360	144,890
IAS19 Adjustment	(331,470)	(331,470)	(1,346,350)
Carry forwards from prior year	0	(251,069)	0
Transfer to reserves	1,577,880	1,577,880	1,954,000
Transfer from reserves	(1,503,399)	(1,564,129)	(2,370,078)
Transfer from unapplied grants	(158,000)	(356,683)	(157,082)
Transfer to/(from) pensions reserves	3,880	3,880	0
Transfer to/(from) balances	155,528	(64,338)	(86,914)
HBBC Budget Requirement	**10,827,029**	**10,827,029**	**10,086,353**

Special Expense Area

3.3 This represents the cost of parks and cemeteries in the non-parished area of Hinckley. Whilst the cost will only fall on the residents of this area, the net expenditure is built into the service totals above and must be included in the Council's overall budget requirement for Council Tax purposes.

3.4 The proposed budgets for the Special Expenses area have been compiled in accordance with an overall increase in the Borough Council Tax Base and a 2.1 per cent Council Tax increase. The increase is just below the rate of RPI inflation as at the end of the third quarter for 2019. A draft report was presented to the Hinckley Area Committee on the 27th January 2020.

	Original Estimate 2019/20 £	Revised Estimate 2019/20 £	Original Estimate 2020/21 £
Expenditure	627,770	629,680	697,210
Transfer to/(from) balances	104,267	102,357	(341)
Transfer to/(from) reserves	20,000	20,000	78,500
S106 Contributions	(20,076)	(20,076)	(20,076)
Budget Requirement	731,961	731,961	755,293

3.5 Balances in the Special Expenses Area (SEA) are estimated as follows:

	£
Balance at 1st April 2019	261,137
Transfer to/(from) Balances 2019/20	102,357
Transfer to/(from) Balances 2020/21	(341)
Estimated Balance at 31st March 2021	363,153

Total Council Budget for 2020/21

3.6 The total overall budget for 2020/21 in the direct control of the Council is therefore:

	Original Estimate 2019/20	Revised Estimate 2019/20	Original Estimate 2020/21
	£	**£**	**£**
HBBC Budget Requirement	10,827,029	10,827,029	10,086,353
Special Expenses Budget Requirement	731,961	731,961	755,293
Total Budget Requirement	**11,558,990**	**11,558,990**	**10,841,646**

3.7 The original budget for 2019/20 has, in accordance with the Council's Financial Procedures, been revised during the year to take account of approved supplementary budgets and virements. These budget changes are summarised below :-

	Outturn variances £000	Explanation
Additional budgets	(112)	**To take into account latest contractual commitments**
Forecast Outturn Movement	(39)	**Estimated forecast variance from services**
External Interest	65	**Reduction in borrowing costs and additional investment income**
Use of Reserves	(83)	**Use of unapplied grants and contributions from prior years**
Carry Forwards	(51)	**Movements in Carry forwards.**
Change in Outturn	**(220)**	**Additional amount to be taken from General Fund balances**

Explanations for variances against both profiled budget and estimated outturn have been detailed in the monthly outturn reports appended. The major service variations in excess of £50,000 have be summarised as follows:

	Outturn variances £000	Explanation
Homelessness	110	**Flexible Homelessness grant carried forward meet commitments in future years. A carry forward will be required at the year end.**
Development Control	(150)	**Reduction in planning income due to a reduction in large applications.**
Planning Policy	**65**	**Reduction in spending on Local Plan to date**

<u>Original Budget 2020/21 – assumptions and process</u>

3.8 The 2020/21 General Fund revenue budget has been prepared following a robust budget process outlined in the 2020/21 Budget Strategy. The table below gives the overall savings and pressures included in the 2020/21 budget

	Pressures	Income/ Savings	Net	Funding SEA
	£	**£**	**£**	**£**
Reduction in pay and display income	31,500	0	31,500	31,500
Reduction in income from benefits over recovery system	20,000	0	20,000	0
Net Reduction in Market Income	20,000	0	20,000	0
Reduction in Benefits Admin Grant	18,000	0	18,000	0
Reduction in car park penalty income	16,000	0	16,000	0
Additional electricity costs	16,000	0	16,000	0
Strategic Growth (funded from LDP Reserve)	14,650	0	14,650	0

Consultancy cost – ICT procurement service	12,000	0	12,000	0
New Licensing Regime	8,000	0	8,000	0
Proms in the Park	11,000	(5,500)	5,500	5,500
PCC Elections	5,300	0	5,300	0
Borough Bulletin – Additional Costs	2,660	0	2,660	0
Subscription to Mailchimp Service	2,000	0	2,000	0
Reduction in conservation Grant	0	0	0	0
Other Minor variations	0	(1,000)	(1,000)	0
Saving on cash receipting processing costs	0	(5,000)	(5,000)	0
Processing costs for Enforcement	0	(6,000)	(6,000)	0
Postage	0	(8,990)	(8,990)	0
Green Bin additional income	0	(11,500)	(11,500)	0
Income from Neighbourhood Development Plan	0	(15,000)	(15,000)	0
Savings Post Room	0	(19,160)	(19,160)	0
Additional Trade Waste Income	0	(30,000)	(30,000)	0
Additional investment interest	0	(40,470)	(40,470)	0
Saving employee costs Customer Services	0	(41,670)	(41,670)	0
Total	**177,110**	**(184,290)**	**(7,180)**	**37,000**

3.9 The budget has been created with clear links to the Council's strategic and service objectives. Clarity of priorities has enabled cross-party members through the Scrutiny and Executive functions to prioritise the projects included in the Capital Programme. Although the Capital Programme is the subject of a separate report, it is important to note that there are links between capital and revenue (e.g. interest from capital receipts, interest on borrowing, staffing costs etc).

3.10 In order to drive efficiency savings within the cost of supplies and services, a rate of 0% has been applied to non-contract related expenditure. As the Retail Price Index (RPI) has stood between 2-3% in year, the application of 0% represents an effective saving on running costs. For contracts, an inflation rate of 2.4% has been used, unless otherwise specified within the terms of the specific contract.

3.11 The salaries and wages budget is the most significant element of the revenue budget. For pay costs, the 2019/20 estimates have been based on the latest pension valuation and a provisionally agreed pay structure. The Council operates a disciplined process of challenging recruitment and filling of posts and therefore a salary saving rate of 5% (General Fund and HRA) has been applied to posts to reflect the savings which will result from this challenge. This rate is unchanged from that used in 2019/20.

Apart form the growths and savings list above, the following items have been included in the service budgets:-

Other pressures and savings 2020/21	Costs	Savings	Description
IAS 19 pension adjustments	1,101,880		Pension adjustments allowed taken out below line
Pension Lump Sum	264,850		Increase in fixed fee element
Inflationary increases	128,384		Contractual inflation
Pay cost	109,975		inflationary increase (all elements, NI, Pensions and increments)
Leisure Centre income	76,838		Reduction based contractual agreed fees
Training		(20,000)	Middle Manager training completed in 2019/20
ICT costs		(23,942)	Reduction based on contractual changes
B&B additional grant		(25,000)	Grant increase to meet current demand
Industrial and Commercial Rent		(79,542)	Additional rental and service charge income for Atkins and commercial units
Enterprise Zone Retained income		(46,000)	New agreement therefore retain 12% of growth on Business Rates
Crematorium		(79,523)	Net income for 2 months
Fees and Charges		(80,639)	Inflationary increases in income
Elections and related costs		(85,000)	Reduction resulting form one off election in 2018/19
Local Plan		(130,770)	Re-phasing on Local Plan Expenditure based on latest forecast.
Total	1,681,927	(570,416)	

3.12 The Leicestershire Pension Fund is re-valued in accordance with statutory requirements. There is currently an actuarial deficit (i.e. the assets of the fund were less than those required to meet the long term liabilities in terms of benefits due to members). Whilst action is needed to remedy this position, the timescales involved mean that there is sufficient time to recover the position in a phased manner over a number of years and valuations. An Employers Contribution rate of 18.3% will be used with an additional 0.9% being included for Ill Health retirement insurance. In addition, a lump sum value of £572,810 (£669,250 including HRA) is payable to the Local Government Pension Scheme which is contained in a corporate budget.

Original Budget 2019/20 – key issues and considerations

3.13 In addition to service priorities, there are a number of wider issues, identified in the Budget Strategy and previously in the Medium Term Financial Strategy. A summary of these items and how they have been addressed in the budget is provided below.

Balances

3.14 The Council has a current policy of maintaining a general fund balance of 15% of the net budget requirement. Historically, the Council's income from Central Government has been relatively fixed (i.e. the financial settlement set the amount of RSG, Business Rates Income and New Homes Bonus). The method of funding local

government services has changed and continues to change. The New Homes Bonus income has also dramatically reduced due to new homes not being delivered as hoped. Business Rates funding is a variable source of income.

3.15 The Council therefore has the following policies relating to levels of balances and reserves for 2020/21:

- To maintain an average general balances (non-earmarked) at a minimum of 15% of Hinckley & Bosworth Borough Council's budget requirement in 2020/21. Based on the forecast position for 2020/21 this would determine a need for £1,507,000 of General Fund balances. The same discipline is also applied to the Special Expense Area.
- Where possible, all actual service under-spends and excess balances should be transferred to earmarked reserves to plan for specific future costs or financial risks.
- There should be no direct contribution from revenue to capital except for specific identified projects.
- Any additional notional surplus/deficit earned/incurred by the Direct Service Organisations will be transferred to/from General Fund balances. Any such balance on the Housing Repairs DSO account is transferred to/from the Housing Repairs Account held within the Housing Revenue Account.

3.16 The projected movement of the General Fund Balances is detailed in the table below and indicates that sufficient balances are forecast as at 31st March 2019 and 31st March 2020. Other movement in balances for 2018/19 will be confirmed at year end and considered as part of future review of reserves.

	Total	General Fund	Special Expenses
	£'000	**£'000**	**£'000**
Balances at 1 April 2019	1,933	1,672	261
Amount Taken to /(from) Balances 2019/20	39	(64)	103
Balances at 31 March 2020	**1,972**	**1,608**	**364**
Amount Taken to/(from)Balances 2020/21	(87)	(87)	0
Balances at 31 March 2021	**1,885**	**1,521**	**364**
Net Budget Requirement	10,782	10,086	696
Minimum Balance requirement (15%)	1,617	1,513	104
Surplus Balance	268	8	260

Earmarked Reserves

3.17 Appendix 1 provides a summary of earmarked General Fund reserves together with estimated movements during 2019/20 and 2020/21. The tables below summarise the changes required to the current approved budget for 2019/20 and lists the approvals required in 2020/21.

Reserve	Transfer to 2019/20 £	Transfer to 2020/21 £	Use
Special Expenses Reserve	0	(110,000)	Set aside to fund future Heritage Action Zone capital costs
Local Plan Procedure	0	(269,000)	Set aside to fund future costs
Maintenance Fund - Green Towers	0	(5,000)	Set aside to fund future maintenance costs
ICT Reserve	0	(80,000)	Set aside to fund future improvements
New Reserves			
Environmental Action Reserve	0	(100,000)	Set aside to fund future climate initiatives
Crematorium Reserve	0	(1,500,000)	Set aside to fund capital costs
Total	0	(2,064,000)	

The following additional transfers to reserves require approval by Council:

Reserve	Transfer from 2019/20 £	Transfer from 2020/21 £	Use
Local Plan Procedure	52,500	185,650	Re-profiling of expenditure for use on local plan
Year End Carry Forwards 2018/19	51,000	0	Reduction in the requirement for prior year carry forwards
Hub Future Rental Management Reserve	0	400,000	Transferred to Crematorium Reserve
Special Expenses Reserve	0	31,500	To fund Free Car Parking
Business Rates Equalisation Reserve	0	1,302,000	Reserve used create Crematorium Reserve and Environmental Action Reserve.
Year End Carry Forwards	0	38,000	Reserve not required used to fund general fund balance
ICT Reserve	0	170,928	Reserve used to fund in year ICT costs
Waste Management Reserve	0	80,000	Set aside to fund future replacement of vehicles
Earl Shilton Toilets	0	68,500	Current level of reserve not required used to create new reserves
PCIF Reserve	0	125,000	Reserve no longer required
Total	103,500	2,401,578	

3.19 Based on these calculations, it is estimated that the Council will hold £7.98 million in earmarked reserves as at 31st March 2020 and £4.45 million at 31st March 2021. This amount excludes any "unapplied grants and contributions" which are treated as

earmarked reserves in accordance with accounting regulations but relate to specific grants where conditions have not yet been met.

Local Government Finance Settlement

3.20 The Council's budgets are highly sensitive to changes in the finance settlement and Government policy. The funding for this Council announced in the 2020/21 Local Government Finance Settlement, along with additional elements of financing are detailed below:

	2019/20 Orig Budget	2020/21 Orig Budget	Mvt
	£	£	£
			Inc/(Dec)
National Non Domestic Rates	2,641,090	2,684,122	43,032
Business Rates Growth	1,292,168	1,281,677	(10,491)
Surplus from Pilot	500,000	0	(500,000)
New Homes Bonus	2,271,759	1,642,296	(629,463)
Net Collection Fund Surplus / (Deficit)	(242,746)	(25,628)	167,593
Council Tax payer	4,364,758	4,503,886	147,951
Total Financing	**10,827,029**	**10,086,353**	**(781,378)**

3.21 The following points should be noted:

- After 2019/20 the RSG support has been incorporated into the business rates baseline,
- The Business Rates Pilot income was a one off in 2019/20 (as budgeted),
- The reset of business rates has been delayed a further year, and

A reduction in New Homes Bonus Income of £629,462, caused by a fall in the delivery of new homes in the area compared to prior expectations.

Business Rates Retention and Pooling

3.22 Leicestershire was one of the successful areas in its submission for a business rate pilot for 2019/20. This benefit was a one off gain for that year. Underlying business rates income has remained fairly static

Business Rates	2019/20 Pilot year	2020/21
	£000	**£000**
NNDR	3,933	3,966
NNDR pilot bid share	500	n/a
Collection fund loss/Surplus	(257)	(30)
Total	**£4,176**	**£3,936**

3.23 The Council's NNDR1 form forecasts the level of Business Rates expected to be collected by the Council in year, after taking into account discounts, collection rates and appeals estimates. For 2020/21 HBBC will have a 40% tier which is approximately £13.4m, the table above gives the element retained once Tariff and Levy charges have been made.

The retained business rates of this Council are subject to a tariff of £9.6m as set out in the 2020/21 Local Government Finance Settlement. Any growth over a set baseline (£2.7m) is subject to a "levy" payment of £1.3m , which is paid to the business rates pool. The settlement announced that a safety net threshold for all Councils of 7.5%. On this basis, this Council would need to lose £2.5m of Business Rates before a safety net payment will be made.

3.24 The NNDR1 form for this Council needs to be approved by the Head of Finance (S151 officer) on 31 January 2019. At the time of writing this report final return is yet to be finalised, which may lead to some changes to the figures forecast.

3.25 The accuracy of these forecasts will be monitored on a regular basis and will be validated only at year end as part of the completion of the NNDR3 form

3.26 Budgeting for business rates is difficult, given the level of volatility in the market and delays in processing of appeals and applications for relief. Ongoing monitoring will be performed of the position in year and reported to the Finance and Performance Committee quarterly. Significant levels of appeals have been lodged with the Valuation Office Agency (VOA), which if successful would have a significant impact on the Council.

New Homes Bonus

3.27 New Homes Bonus was introduced in February 2011 and was designed to encourage housing growth by providing financial incentive for Councils and local people to accept new housing

3.28 The Financial settlement for 2020/21 see significant changes to NHB, as it moves towards being phased out with only legacy payments being made. This means that this funding will be removed between 2020/21 to 2022/23. The 2020/21 is that last time payments will be made based on four years of award, I will move to two years, then one year, then no further payments under the current procedures. The Government have noted they wish to introduce a more targeted funding, but have released no details of how this will work or what it will be based on. Any replacement is expected to be at a much reduced level on current

Future Income Increases

3.29 Members will recall that from 2016/17, the Council will also be in receipt of Management Fees from the provider of the new leisure centre. The table below summarises the management fee. This income has already been allowed for within the MTFS:

	2019/20	2020/21	2021/22
Net Management Fee £	1,012,650	935,810	920,860

3.30 The 2020/21 budget should be read in conjunction with the Council's Fees and Charges book for 2020/21, which is also agreed by Council. This document reflects the annual review of all Council income streams and any variations in charging regimes. Major Fee changes are summarised below:-

- Increase in pre-planning application advice
- Increase in legal fees

Leicestershire Revenues and Benefits Partnership

3.31 The budget for the Leicestershire Revenues and Benefits Partnership (the Partnership) was approved by the Partnership Joint Committee on 23rd January 2020. The total cost of the Partnership is split between Hinckley and Bosworth Borough Council, Harborough District Council and North West Leicestershire District Council based on a percentage rate which reflects the case load dealt with by the Partnership. The resulting estimated contributions for 2020/21 are detailed below. The contribution for this Council has been included within the General Fund budget and reflects an increase of £17,811 compared to 2018/19:

	HBBC £
2019/20 Contribution (draft)	**1,365,981**
2019/20 Contribution	**1,348,170**
Difference – Increase/(Decrease)	**17,811**

Investment (Income/Costs)

3.34 In recent years the country has faced unprecedented levels of public sector borrowing which had reached a peak of 2019/20 and has led the Public Works Loan Board (PWLB) to increase rates by 1%. The government continues to emphasise a need to reduce borrowing which consequently impacts the level of resources available to the sector.

3.35 The Base Rate is currently 0.75%; this level has been assumed in the 2020/21 budget to ensure that a prudent level of investment income is assumed. Conversely, the Council is able to borrow from the PWLB to fund the Capital Programme. Loans are acquired at preferential rates from this source which reduces the level of interest payable from the General Fund.

3.36 Net interest cost for this Council have been estimated at £144,890 and is based on a cash flow and borrowing forecast.

Major Projects

3.37 Appropriate provision has been made in the budget for the revenue consequences of the Council's major projects including:

- The Hinckley Bus Station Redevelopment - "The Crescent"
- Hinckley Leisure Centre
- Former Co-op site (Castle Street)
- Crematorium

The full impact of these schemes is detailed in the Capital Programme.

Council Tax

3.38 For 2020/21 the financial settlement offered the ability to councils that have been prudent in council tax increments and find themselves in the bottom quartile for the level of council tax charged, to level a £5 increase. The General Fund budget is based on a 2.1 per cent increase in Council Tax which is below the RPI inflation rate

at the end of December 2019 and does not fully utilise the full £5 available, equating to an overall increase of £2.77 on an average band D.

Medium Term Financial Strategy

3.39 The MTFS is due to be presented at a later date due to the high level of uncertainty over Central Government's longer term intentions in relation to the fair funding review, business rates reset and the changes to the NHB funding streams.

4. EXEMPTIONS IN ACCORDANCE WITH THE ACCESS TO INFORMATION PROCEDURE RULES

4.1 Report to be taken in open session.

5. FINANCIAL IMPLICATIONS [IB]

5.1 Contained within the body of the report.

6. LEGAL IMPLICATIONS [FA]

6.1 Section 25 of the Local Government Act (2003) requires the Section 151 officer to report on the robustness of the estimates made within the budget and the adequacy of the financial reserves. This report meets that obligation.

7. CORPORATE PLAN IMPLICATIONS

7.1 A robust General Fund Budget is required to ensure that resources are effectively allocated in order to ensure delivery of all of the aims, outcomes and targets included in the Council's Corporate Plan.

8. CONSULTATION

8.1 None.

9. RISK IMPLICATIONS

9.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

9.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision/project have been identified, assessed and that controls are in place to manage them effectively.

9.3 The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
That the Council has insufficient resources to meet its aspirations and cannot set a balanced budget	A budget strategy is produced to ensure that the objectives of the budget exercise are known throughout the organisation.	Strategic Leadership Team

	The budget is scrutinised on an ongoing basis to ensure that assumptions are robust and reflective of financial performance.	Strategic Leadership Team
That decisions made for 2020/21 are made in isolation from the Medium Term Financial Strategy and the pressures set out in that strategy.	Decisions are made which provide costed reassurance that sufficient levels of reserves and balances are maintained to ensure financial resilience over the period of the MTFS	Council
That the MTFS has no robust and costed plan to ensure sustainability, resulting in public criticism on value for money from the internal and external auditors	Decisions are made which provide costed reassurance that sufficient levels of reserves and balances are maintained to ensure financial resilience over the period of the MTFS	Council

10. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

10.1 This budget ensures that value for money services can be delivered to all residents and communities within the Borough.

11. CORPORATE IMPLICATIONS

11.1 By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Procurement implications
- Human Resources implications
- Planning implications
- Data Protection implications
- Voluntary Sector

Background papers: None

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