

Report of the Director of Finance to the meeting of Executive to be held on 5 February 2019.

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Subject:

2019-20 BUDGET UPDATE

Summary statement:

On 4 December 2018 the Executive approved, amended and new, budget proposals for consultation as required with the public, interested parties, staff and the Trade Unions.

This report provides the Executive with an update on national announcements and local decisions since 4 December 2018. It also identifies issues and uncertainties which could still have a bearing on the final size of the funding gap for the financial years 2019/20 and 2020/21 to be closed by Budget decisions.

Executive will need to have regard to the information contained in this report when considering the recommendations to make to Council at their meeting on 19 February 2019.

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Overview & Scrutiny Area:

Corporate

1. SUMMARY

- 1.1 This report provides an update on the national announcements and local decisions taken since 4 December 2018 when the Executive approved for consultation amended and new budget proposals for 2019/20 and 2020/21. It also identifies issues and areas of uncertainty which could have a bearing on the final size of the 2019/20 and 2020/21 funding gap.

2. MAIN MESSAGES

- 2.1 The Provisional Local Government Settlement published on 13 December 2018 had several announcements that will affect Bradford Council.
- Confirmation of the Council Tax Referendum limit at 3%;
 - No change to the social care precept rates;
 - One off redistribution of surplus on national Levy account;
 - Approval of the Leeds City Region and North Yorkshire 75% business rate pool;
 - Consultation on the introduction of new Fair Funding formula;
 - Consultation on the move to 75% Business Rate Retention
- 2.2 New Homes Bonus confirmation of provisional allocations for 2019/20 with no amendment to the deadweight factor. This has resulted in a one off monies of £607k for 2019/20 compared to the budget consultation papers. Further details are set out at 3.1.7 below.
- 2.3 Confirmation of the Social Care monies announced in the Autumn Budget which result in £74k less than anticipated in the budget consultation papers
- 2.3 Continuing negotiations with West Yorkshire Combined Authority regarding the levy payments.
- 2.4 The Financial Position Statement for the Third Quarter continues to highlight pressures within Adults and Children's Social care and increasing pressure on waste disposal and street lighting.
- 2.5 Revision to the Council Tax and Business Rate Baseline figures.

3. NATIONAL ANNOUNCEMENTS

- 3.1 Provisional local government settlement

The provisional local government settlement was announced on Thursday 13 December 2018 and the consultation formally closed on 10 January 2019 with the final settlement expected to be laid before Parliament in February 2019.

Key announcements from the provisional settlement were:

- 3.1.1 Levy Account Surplus redistribution – Local authorities are able to retain growth in the local share of business rates subject to a levy which will ensure that for every 1% increase in the amount of business rates an authority collects above a baseline amount, it will get to keep no more than the equivalent of a 1% increase in its baseline funding level. The levy collected through this mechanism is used to pay for those local authorities that require additional funding in instances where their business rate collection has taken them below the safety net threshold.

It is the surplus on the levy amounts collected and not utilised that MHCLG have redistributed back to local authorities. Bradford's share is £2.1m and will be recognised in the financial year 2018/19. This would reduce the forecast overspend and reduce the potential call on reserves in order to secure a balanced outturn for 2018/19. The money is one off and the consultation on 75% business rate retention suggest that the levy system will be reformed in future years so it is unlikely that there will be any sizeable redistribution for 2019/20.

- 3.1.2 Council Tax Referendum limit - the limit at which a metropolitan local authority must hold a referendum on council tax rises has been confirmed for 2019/20 as 3% which is the assumption used in the budget consultation papers approved on 4 December 2018. The same assumption has been used for 2020/21 although this has not been formally confirmed by MHCLG.
- 3.1.3 Parish Council precepts – the Government has announced it will continue to defer the setting of referendum principles for town and parish councils. This is conditional on the sector demonstrating clear evidence of restraint.
- 3.1.4 Adult Social Care Green Paper – the green paper on Adult Social Care that was due in 2017 has been deferred again and will be published “at the first opportunity in 2019”.
- 3.1.5 Winter Pressures and Social Care Support Grant - The allocation of the additional monies for social care announced in the Autumn Budget have been confirmed and the estimate used in the budget consultation papers issued 4 December 2018 were overestimated by £74k. This is because when announced by the Chancellor the monies were for both Adult and Children's social care. The allocations have been distributed using just the Adult Social Care relative needs formula. If the monies had been distributed using an element of Children's Social care relative needs then Bradford's share would have been higher. The money has already been factored into the budget workings to part fund the additional investment lines for Adults and Children's set out in Appendix C - Document Z Proposed Financial Plan Updated 2019/20 to 2020/21 Executive Report 4 December 2018.
- 3.1.6 Improved Better Care Fund – no changes to the allocations of previously announced Improved Better Care fund were made.
- 3.1.7 New Homes Bonus - no new changes in the way the New Homes Bonus works and the baseline will be retained at 0.4%. Locally we had assumed that the deadweight factor would be increased to 0.44% as indications suggested the national control total would be breached. The government has put in extra monies to top up the 2019/20 New Homes Bonus. This adjustment together with a cautious estimate in the budget consultation paper issued on 4 December 2018 means there is an extra £607k available to help close the gap for 2019/20.

- 3.1.8 75% Business Rate Pilots – the Leeds City Region (LCR) together with North Yorkshire 75% Business Rate Pilot was approved by MHCLG. This means that if the member authorities of the pilot accept MHCLG's offer they will forego their Revenue Support Grants and in return for retaining 75% of any growth or in the unlikely event dealing with any deficit. Further work is currently underway to repopulate the pilot model with updated NNDR1 figures and also s31 grant allocations.

Under the terms of the pilot member authorities will retain 75% of growth above business rates baseline income, with the remaining 25% being paid to government. The income will be shared out so that member authorities receive two thirds of the additional income generated through the 75% business rate retention, one third in proportion to their share of total growth achieved above the 75% baseline and one third in proportion to population, the remaining third of additional income being retained by the pool.

It is estimated that there would be a net gain to Bradford of £3.7m from the 75% business rate pilot including the adjustments to s31 grants and top up grant. This pilot has only been agreed for one year as the government are consulting on a permanent 75% business rate retention model from April 2020.

It is also important to note that for this pilot the government will no longer indemnify local authorities for any shortfall in the business rate income whereby they would be worse off than if they had not accepted the 75% pilot.

- 3.1.9 The government also announced funding to cancel the effect of negative Revenue Support Grant (RSG). The Settlement Funding Assessment announced by the government for each local authority is a combination of RSG and Baseline Funding Level (BFL). BFL is indexed each year in line with the business rates multiplier so any cuts applied to the Settlement Funding Assessment (SFA) are made against the RSG. Negative RSG is where a local authority's Settlement Funding assessment is lower than its BFL. The BFL was set by central government in 2013/14 as the amount of funding available through a local authority's share of the total business rates collected.

In effect the cost of the £153m of negative RSG that would have affected 168 local authorities has been redistributed amongst all the other remaining local authorities. In other words they are taking a share of the cuts the 168 councils would have had. If we used Bradford's share of the 2018/19 SFA as a proxy for allocation this equates to £1.8m loss of funding for Bradford.

- 3.2 Public Health Grant - On 20 December 2018 the Public Health Grant allocations for 2019/20 were announced and the allocations for Bradford of £40.7m for 2019/20 were in line with expectations i.e. a 2.6% cut in funding and this was reflected in the budget consultation paper. No allocations have been announced beyond 2019/20 as the Fair Funding Review consultation indicates that Public Health will be one of the seven Service Formulas in addition to the Foundation formula. Please see section 6.5 below.

- 3.3 School Funding - the Dedicated Schools Grant figures were released on 17 December 2018 and they are in line with expectations. The government also announced additional one off funding for High Needs of which Bradford is due to receive £1.47m in 2019/20 and 2020/21. Due to damping and transitional arrangement on the National Schools funding formula there is significant pressure on the High Needs Block educational expenditure and the estimated cost to Bradford of these is £12.4m. Whilst the temporary money of £1.47m for two years is welcome it still leaves a large pressure for the High Needs educational purposes. Discussions are taking place with the Schools Forum in relation to the High Needs block.
- 3.4 There will be other specific grants announced between now and April 2019 that will affect local government finances.

4. LOCAL ISSUES

4.1 Council Tax

At the meeting of the Executive held on 8 January 2019 the Council Tax base for 2019/20 was approved as a total number of Band D equivalent properties of 142,200. This is an increase of 526 Band D equivalent properties on the figure used in the budget consultation report and will result in an increase of £722k for the estimate of council tax in 2019/20.

4.2 Business Rates Base

As explained in paragraph 3.1.8 above the LCR/North Yorkshire 75% Business Rate Pilot was approved by MHCLG. The implications of accepting this offer would be that the government will need to recalibrate the business rate distribution mechanism to ensure that the members of the pool are no better or worse off compared to their business rate baselines. To undertake this recalibration the government will firstly extinguish the Revenue Support Grant (RSG) of the pool members and then adjust their respective Tariff and Top Adjustments.

The report to Executive on 8 January 2019 sets out in further detail the calculation of the forecast business rate income.

4.4 New Pressures

- 4.41 Other than the savings that were identified as being at risk in Appendix F of Document Z - Proposed Financial Plan Updated 2019/20 to 2020/21 Executive Report 4 December 2018 it is assumed that all other savings will be delivered in full.
- 4.4.2 Discussions are taking place with the West Yorkshire Combined Authority (WYCA) on the levy that will payable by the Councils. It is envisaged that the levy payable will be in line with the budget proposals for 2019/20 and 2020/21. The final levy payable to WYCA will become known in early February 2019.
- 4.4.3 The Quarter 3 Financial Monitor indicates continuing pressure on Adult's and Children's Social care. Additional pressure is also being reported on Waste collection and disposal and Street Lighting. In the budget consultation papers money has been proposed for reinvestment in these areas.

4.5 Potential Effect of Items Highlighted in this Report

The potential effects of the items highlighted in this report are set out in the Table 1 below:

Table 1: Potential Impact of Items Highlighted in this Report

	2019/20	2020/21	2020/21
	£m	£m	£m
Social care support grant (3.1.5)	(0.1)		
New Homes Bonus (3.1.7)	0.6		
75% Business Rate Pilot (3.1.8)	3.7		
Council Tax base revision (4.1)	0.7	0.7	0.7
Potential additional income	4.9	0.7	0.7

The figures in Table 1 are shown on a cumulative basis

As can be seen in Table 1 it is only the council tax base that provides a continuing benefit, the rest of the money is one off for 2019/20. Given the required use of reserves for 2019/20 and the gap for 2020/21 it would be recommended that the above sources of income are used to reduce the call on reserves in 2019/20 and help close the forecast gap for 2020/21.

5. CAPITAL EXPENDITURE

- 5.1 There are no proposed changes to the current size of the capital investment plan that is fully funded in the budget papers.

6. OTHER MATTERS TO TAKE INTO CONSIDERATION

- 6.1 At 31 December 2018 the unallocated reserves stood at £14.5m. The current budget proposals assume that £7.3m of earmarked reserves would be used in 2019/20 to close the forecast gap. Given the one off nature of the funding changes outline in Table 1 above it would be recommended that these monies are used to reduce the potential call on reserves in 2019/20.

It is also recommended that unallocated reserves are maintained at their current level given the underlying budgetary pressures facing the Council.

- 6.2 In a separate report to this meeting the Executive will consider feedback received to date from the on-going consultation processes on the budget proposals which includes feedback received from the public, interested parties and key stakeholders and the Trade Unions and will also consider the equality implications of the proposals.
- 6.3 The nature of the consultation means that at this stage it is not possible to provide a financial assessment on the implication of any of the feedback received to date. In proposing the final budget the Executive will need to have due regard to the information contained within this report, the consultation feedback received to date and the public sector equality duty as set out in section 149 Equality Act 2010.

6.4 The government also issued two new consultations on 13 December 2018:

- Review of local authorities' relative needs and resources; and
- Sharing risk and reward, managing volatility and setting up the reformed system.

The first one is a continuation of further work on the fair funding review and the second is the proposed move to a 75% business rate retention scheme. Both changes are planned to take effect from April 2020.

Both consultation papers are setting out principles and it is unlikely that detailed exemplification will be provided for the effect on individual local authorities until late in 2019. The closing date for responses to the consultations is 21 February 2019.

6.5 Fair Funding Review – the key points are:

A Foundation Formula with seven additional service based blocks, Adult Social Care, Children and Young People's Services, Public Health, Highways Maintenance, Fire & Rescue, Legacy Capital and Flood Defence & Coastal Protection.

The main driver for the Foundation Formula will be population estimates together with an Area Cost Adjustment that will include an adjustment for rurality and also density. Deprivation is not proposed to form part of the Foundation formula which will have a negative impact on Bradford. Deprivation may be used in some of the service based blocks but it is not clear what weighting might be applied.

In relation to relative resources the proposal is to use a level of notional council tax levels rather than actual council tax levels.

The consultation indicates that sales, fees and charges will not be included in the relative resources of local authorities but the option to include on and off street car parking income is still under consideration.

Principles are proposed regarding transitional arrangements for the introduction of the fair funding reforms but the actual methodology will not be known until later in the process.

The key issues are the lack of detail on the weighting of indicators and the data sources to be used, together with the absence of a deprivation factor in the Foundation Formula.

6.6 Business Rate Reform – Ministers are indicating that they prefer a full business rates baseline reset in 2020/21 which they say will allow full implementation of reforms to the Business Rates system, the Fair Funding review and SR2019. Post 2020/21 the government are consulting on the type of reset to be applied and the period of time such a reset would cover.

The two types of reset proposed are:

- Partial reset – some of the growth is retained between resets
- Phased reset – each year a new year's growth is added to the amount

retained and after a set period the first year's growth is redistributed amongst local authorities in relation to Baseline Funding Levels.

The government cannot remove the levy (the amount of business rate growth above a certain level that is paid over to government) without primary legislation. As an alternative the government is considering the introduction of a cap on the level of business rates growth that could be retained. The levels proposed are quite high and a cap of 150% against Baseline Funding Level would only have seen 18 local authorities caught by this using 2016/17 data, falling to only 4 local authorities if a cap of 250% were to be used. These proposals will clearly favour those local authorities with high business rate growth.

The consultation paper also includes a potentially modified business rate retention system that would make appeals a national issue but further work is required on this proposal, especially on how to establish the level of growth that could be retained by a local authority.

It is proposed that the safety net system is continued but the level of the safety net will not be established until the end of the process.

The paper also considers the tier splits but this does not directly affect Bradford.

7. RISK MANAGEMENT AND GOVERNANCE ISSUES

The uncertainties regarding the funding that will be available to the Council are considered within this report.

8. LEGAL APPRAISAL

It is necessary to ensure that the Executive have comprehensive information when considering the recommendations to make to Council on a budget for 2019/20 and budget proposals for 2020/21 at their meeting on 19 February 2019. It is a legal requirement that Members have regard to all relevant information and the information in this report is considered relevant in this context.

9. OTHER IMPLICATIONS

9.1 EQUALITY & DIVERSITY

The equality implications are considered in a separate report to be presented to this meeting of the Executive.

9.2 SUSTAINABILITY IMPLICATIONS

There are no direct sustainability implications resulting from this report.

9.3 GREENHOUSE GAS EMISSIONS IMPACTS

There are no direct greenhouse gas emissions implications resulting from this report.

9.4 COMMUNITY SAFETY IMPLICATIONS

There are no direct community safety implications resulting from this report

9.5 HUMAN RIGHTS ACT

There are no Human Rights implications resulting from this report

9.6 TRADE UNION

The interim Trade Union feedback on the budget proposals is considered in a separate report to be represented to this meeting of the Executive.

9.7 WARD IMPLICATIONS

There are no direct Ward or area implications resulting from this report.

9.8 IMPLICATIONS FOR CORPORATE PARENTING

None identified.

9.9 ISSUES ARISING FROM PRIVACY IMPACT ASSESMENT

None identified.

10. NOT FOR PUBLICATION DOCUMENTS

None

11. RECOMMENDATIONS

- 11.1 Executive are asked to note the contents of this report and to have regard to the information contained within this report when considering the recommendations to make to Council on a budget for 2019/20 and budget proposals for 2020/21 at their meeting on 19 February 2019.

12. BACKGROUND DOCUMENTS

Document Z - Proposed Financial Plan Updated 2019/20 to 2020/21 Executive Report 4 December 2018

Document AF – Calculation of Bradford’s Council Tax Base and Business Rates Base for 2019/20 Executive Report 8 January 2019

Document AT – Financial Position Statement for Third Quarter Executive Report 5 February 2019