



Report to: Policy and Resources Committee, 5th February 2019

Report of: Corporate Director - Finance and Resources

Subject: PROPOSED BUDGET 2019/20 AND MEDIUM TERM FINANCIAL PLAN 2019/20 – 2023/24

1. Recommendation

1.1 That the Committee endorse the proposed Budget and Council Tax for 2019/20 and the proposed Medium Term Financial Plan for the next five year period 2019/20 – 2023/24, and recommends its approval to Full Council on 19 February 2019 including the following resolutions:

- a. That the Budget Requirement for Worcester City Council (excluding Parish Precepts) 2019/20 be set at £10.240m;**
- b. That the Council Tax Requirement for Worcester City Council (excluding Parish Precepts) 2019/20 be set at £5,930m; and**
- c. That the Band D Council Tax for Worcester City Council (excluding Parish Precepts) be set at £185.88;**

1.2 That the Committee approves the Treasury Management Strategy, including the MRP policy statement and the prudential indicators set out in the Strategy; and

1.3 That the Committee considers the proposals brought forward by the Policy Committees during January 2019 and includes those approved in the recommendations to Full Council.

2. Background

2.1 At its meeting of 11 December 2018, the Committee endorsed a high level medium term financial forecast to provide the financial framework for the detailed draft budget for 2019/20 and the medium term financial plan (MTFP) for 2019/20 to 2023/24.

2.2 The key priority for the Council is to set a balanced budget not just for the next financial year, but over the lifetime of the MTFP, which is achievable, sustainable, able to withstand financial pressures and can deliver the following outcomes:

- i. a planned balanced budget for the next five years, which safeguards Council services through a combination of cost management and income generation to enable the Council to deliver its service requirements in support of the City Plan**
- ii. further investment to deliver the agreed cross-party City Plan objectives**
- iii. further investment in the capital infrastructure of the Council to ensure good quality service delivery**

- iv. minimal reliance on the use of general fund balances to achieve a three year balanced budget, with general fund balances maintained at a minimum of £1.1m to meet unforeseen risks
- v. continuous improvement in value for money and customer focus, working with staff and our partners to deliver the best possible outcomes.

Key Financial Assumptions

- 2.3 The preparation of a five-year MTFP, considered by the Committee at its meeting of 11 December, was based on a number of working assumptions, as follows:
- i. Council Tax Base (dwellings) growth of 1.2% in 2019/20 and 1% p.a. thereafter;
 - ii. No price increases to car parking charges;
 - iii. Business rates inflationary increases of 2.4% per annum from 2019/20 to 2023/24. An additional £100k has been added from 2019/20 to reflect the level of income achieved in each of the last two years.
 - iv. Inclusion of approximately 50% of NHB grant allocation each year to support service delivery;
 - v. Council Tax model increases of 2.99% at Band D equivalent;
 - vi. Interest rates receivable forecast in 2019/20 of 0.6% with the rate gradually increasing to 1.75% by 2023/24, in line with advice provided by our Treasury Advisers.
 - vii. A continuing investment of £3m in Property Funds at an estimated return of 4.2% generating interest receivable of £130k.
 - viii. Revenue Support Grant reduces to zero in 2019/20;
 - ix. Pension forward funding rate maintained at 15.1% with no further increases anticipated. The increases assumed in the previous MTFP have been removed.
 - x. Pension back-funding deficit contributions based on the latest actuarial valuation with no change anticipated from the next valuation, which is expected for 2020/21. The increases assumed in the previous MTFP have been removed.
 - xi. Pay award of 2.8% p.a. for 2019/20 including aligning with the new NJC pay scales, subject to maintaining the differential created by the Council's pay freeze in 2014, and maintaining salaries above the Real Living Wage level.
 - xii. Selective prices inflation at an average 2.5% to reflect contractual commitments and price risk areas;
 - xiii. Continuation of the remainder of the 'MTFP Transformation and Savings Plan' and incorporating new elements of efficiency improvements and income generation into the 'Achieving Excellence - Income and Efficiency Plan 2019-22'.

Financial Assumptions	2019/20	2020/21	2021/22	2022/23	2023/24
Council Tax Base	31,898	32,216	32,539	32,864	33,193
CT Base increase %	1.2%	1%	1%	1%	1%
Council Tax increase	2.99%	2.99%	2.99%	2.99%	2.99%
Business Rates inflation	2.4%	2.4%	2.4%	2.4%	2.4%
Interest rates (receivable)	0.6%	0.9%	1.25%	1.5%	1.75%
Salary inflation	2.8%	2.0%	2.0%	2.0%	2.0%
Non-pay inflation (average/selected items)	2.5%	2.5%	2.5%	2.5%	2.5%

- 2.4 A number of proposals contained in the draft budget are subject to further agreement and, in some cases, have not yet been allowed for in budgets. These are set out in the following paragraphs.

County-wide collaboration

- 2.5 During 2018/19 there have been a series of discussions between Worcestershire Districts and the County Council regarding areas of operations where cross-tier collaboration can be increased. There have been two areas of focus: collaboration on business rates retention and collaboration on service delivery.
- 2.6 Councils across Worcestershire have been successful in a bid to pilot 75% business rates retention one year in advance of the Government's proposed plans to roll this out to all councils. The bid requires existing business rates pools to be dissolved and a pan-Worcestershire pool established. The outcome is that, approximately, an extra £4.9m will be retained locally for the area. However, as part of the agreement, this is to be retained for county-wide projects to increase spending on Adult Social Care. Accordingly, no allowance has been made in the Council's budget for any increased income at this stage. A 'no detriment' clause included in the funding bid means that all councils will receive what they would have received under the 50% scheme, including any growth in 2019/20, in any event.
- 2.7 In respect of collaboration on service delivery, a number of proposals are under discussion, including contributing to the costs of delivering library services across the three sites in the city to support their community benefit (subject to the outcome of the County Council's current public consultation on library services). However, these proposals have not yet been finalised sufficiently to include in the budget report. In total, these changes would result in a budget pressure of up to £250,000 to the City Council. Agreements over how these proposals will be taken forward require separate decisions by the relevant committees. Therefore no budget adjustments have been made at the date of this report.
- 2.8 Subject to further agreements, the changes could be funded from New Homes Bonus although this would reduce the percentage retained for City Plan Funding further below 50%, depending on the level of NHB actually received. The following table shows the impact compared to the proposed budget set out in **Appendix 1** based on current known estimates.

	2019/20	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000	£000
Forecast Budget Financing	10,490	10,582	10,880	11,322	11,926
Forecast Budget GAP	0	0	0	0	0
Required General Fund	1,100	1,100	1,100	1,100	1,100
Forecast General Fund	1,100	1,100	1,100	1,100	1,100
NHB - Notified/Forecast grant Used for Revenue Budget	1,527 (1,041)	1,265 (842)	1,110 (768)	1,233 (880)	1,395 (1,143)
Transferred to City Plan Fund	486	423	342	353	252
	32%	33%	31%	29%	18%

Community activities (WCT)

- 2.9 The budget for 2018/19 included grants to Worcester Communities Trust of £72k for the management and maintenance of the Council's community centres and a further £85k provision in support of the Trust's continuing activities at the centres. The business plan anticipates that this will not be needed in full and the 2019/20 budget had reduced the contingency provision to £42,000.
- 2.10 A five-year business plan was adopted in 2018/19 and clear and positive progress is being made by WCT officers to ensure the long term sustainability of the organisation. It is anticipated that WCT will make its first surplus in 2019/20. If all business plan objectives are achieved, then the only funding WCT anticipates needing from the Council for 2019/20 to 2022/23 is the 72k p.a which is a contractual commitment set out in the Service Agreement with the Trust.
- 2.11 The Castelrigg review of the community centres recommended that a review of achievements against the business plan takes place two years after the formal adoption of the plan. This is not due until April 2020. However, to support the delivery of the ambitious but achievable targets within WCT's 5 year business plan, it is recommended that the Council commit to providing the management fee for the next 4 years to bring it in line with the business plan. It is also recommended that inflationary increases are built into this funding in line with annual increases in RPI and estimates have been included in the draft budget to allow for this. The two-year review will be undertaken by the Communities Committee in due course.

Arts Development Funding

- 2.12 The Council has been successful in bidding for capital support from the Arts Development Funding scheme. The award is for £3m and will be used to regenerate the railway arches into affordable creative workspaces and support a festivals programme. A series of decisions need to be made regarding the shape of this project and the deployment of grant funding. A proportion of match funding is also required, anticipated to be £310,000 from the City Council, which will be charged to the City Plan Fund reserve. The revenue implications of this project will be incorporated into budgets once the project plans have been developed and approved by committee.

CCTV

- 2.13 At its meeting of 11 December the Committee approved proposals for capital investment of £398,000 in CCTV equipment and services. Subsequent to that meeting the Police and Crime Commissioner has agreed additional funding of £75,000 to support this initiative, £50,000 of which will need to be agreed through the Community Safety Partnership. The capital and revenue implications of this change will be incorporated into budgets once the procurement exercise for the work has been completed and the total planned funding and spend is agreed.

Tennis in the parks

- 2.14 At its meeting of 15 January 2019, the Income Generation Sub-committee approved for consideration fees in respect of tennis provision in the City. The Committee noted that this is subject to a report which is scheduled for discussion at the Communities

Committee in March 2019. The proposals include an increased contribution from the Lawn Tennis Association over and above the £100,000 contribution previously agreed. No allowance has been made for revenue income at this stage or increased capital expenditure.

Members' allowances

- 2.15 The Independent Remuneration Panel has reviewed Members allowances and a report of its findings will be presented to Full Council at its meeting of 19 March. Sufficient allowance has been made in the budget and MTFP for the recommendation of the committee and budgets will be revised following the decision of Full Council.

Additional proposals

- 2.16 Subsequent to the meeting of 11 December, the draft budget proposals have been revised in the light of:
- The provisional Local Government Finance Settlement published on 13 December 2018
 - Further financial information
 - Consultation with the public
 - Consultation with all Council Members at a meeting of 17 January 2019.
- 2.17 Proposals brought forward to the Environment Committee, Communities Committee and the Place and Economic Development Sub-committee have also been received. These are presented for consideration by the Committee elsewhere on the agenda and include considerations of the financial impact on the budget and MTFP summarised at **Appendix 1**.

3. Provisional Financial Settlement

- 3.1 The provisional financial settlement confirmed the proposed settlement figures included in the Four Year Settlement accepted by the Council in 2016, covering the years 2016/17 to 2019/20. In particular, no change was made to the minimum requirement for housing growth to qualify for New Homes Bonus. This means that the proposal to allocate 50% of the New Homes Bonus to the General Fund can be implemented, in broad terms, with the remainder being allocated to the City Plan Fund. More specifically, the proposed allocation to the City Plan Fund in 2019/20 is 48% of the total NHB receivable and this falls to 36% in year five of the MTFP.
- 3.2 As part of the 2018/19 settlement, the Local Government Minister included a proposal to allow a maximum of a 2.99% increase in Council Tax without the requirement to hold a referendum for the years 2018/19 and 2019/20. The proposed budget includes an expected increase of 2.99% for Council Tax in line with the maximum allowance. This, taken together with the 1.2% increase in the Council Tax base set by the Committee at its meeting of 11 December 2018, results in an overall increase of £239k over 2018/19.
- 3.3 As part of the 2018/19 settlement, the Minister also announced a review of Local Government funding and a proposal for Councils to retain 75% of business rates (compared to 50% at present) by 2020/21. No agreement has yet been made on how any additional resources resulting from this change will be distributed in two-tier areas, beyond the pilot arrangements identified above. Therefore no assumptions

have been made about income growth from 2020/21 onwards. Further considerations in respect of this are covered in the *Risk Implications* section below.

- 3.4 In the light of the longer-term outlook for local government funding underpinning the settlement the assumption of a pay award of 2% p.a. across all five years of the MTFP has been retained.

4. Further financial information

- 4.1 Alongside the consultation and budget-setting processes between October and January, estimates for the year have been subject to further review. The following changes have been incorporated into the budgets and are proposed for approval:

- variances in the Income and Efficiency Plan agreed in consultation with Members
- deferral of efficiencies in Economic Development and Planning Services
- increased sponsorship for the Worcester 10k run from £20k p.a. to £25k p.a. for three years
- increase in New Homes Bonus for affordable Homes of £37k p.a. for four years. This was excluded from previous estimates of New Homes Bonus for 2019/20 and the subsequent three years as it was not notified until the draft Settlement.

- 4.2 The changes are summarised in Table 1 below showing revisions to the Forecast Net Budget presented to the Committee on 11 December. In order to maintain the balance on the MTFP as presented on 11 December, the New Homes Bonus allocation between revenues and the City Plan Fund has been used. This has resulted in 48% of the NHB being allocated to the City Plan Fund rather than 49% as originally proposed.

- 4.3 A full version of the MTFP is provided at **Appendix 1** and the Income and Efficiency Plan is provided at **Appendix 2**. The result is a proposed addition to reserves of £27k in 2019/20.

Table 1: proposed budget changes since 11 December 2018

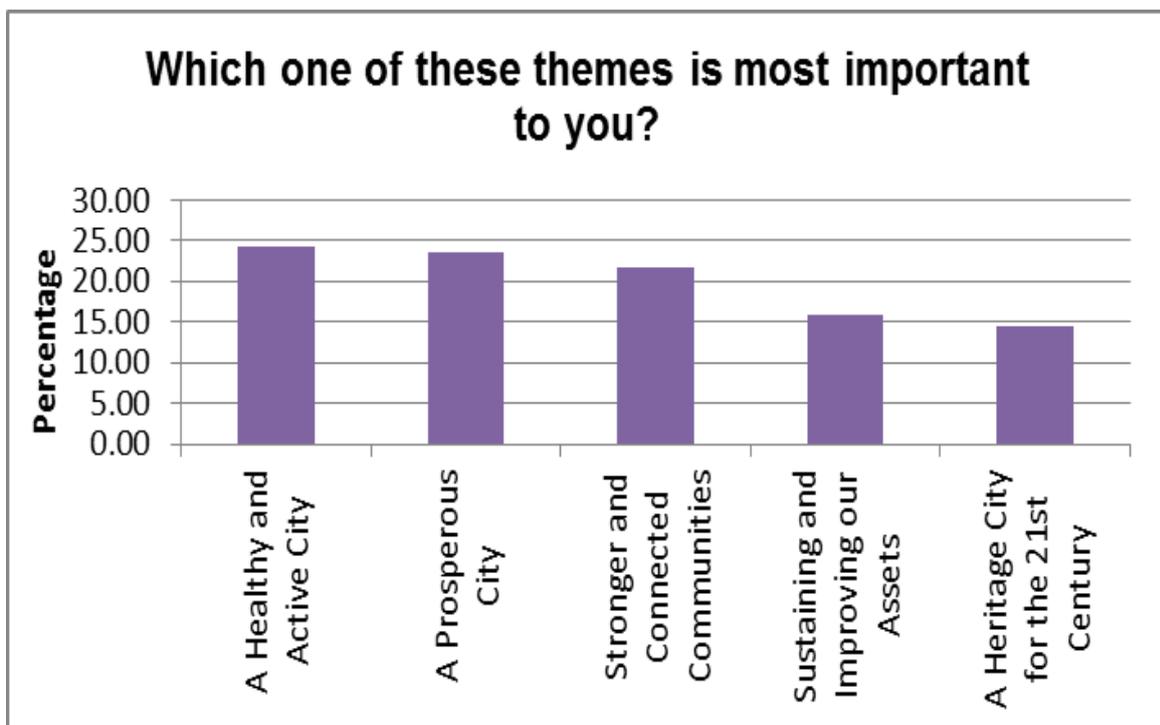
	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Forecast Net Budget	10,179	10,255	10,587	11,029	11,633
Amendments to Income and Efficiency Plan agreed with Members	11	41	41	41	41
Deferral of efficiency savings in Economic Development and Planning Service	50	35			
Other – net impact of various minor adjustments (rounded)		1	2	2	2
Revised Forecast Net Budget ⁽¹⁾	10,240	10,332	10,630	11,072	11,676
New Homes Bonus receivable (<i>re Affordable housing</i>)	37	37	37	37	0
New Homes Bonus transferred to revenue	(61)	(78)	(44)	(43)	(48)
New Homes Bonus transferred from City Plan Fund	24	41	7	6	48

Note (1): Differences within £2k are due to rounding

5. **Budget consultation and development**

- 5.1 In previous years, budget-setting has included a period of budget scrutiny through the Performance Management and Budget Scrutiny Committee (PMBS). Following the change from a Leader and Cabinet model to a Committee System from May 2017 the PMBS Committee has been dissolved and the performance scrutiny function transferred to the new policy committees.
- 5.2 Opportunities for stakeholders other than Policy & Resources Committee members to contribute to the budget-setting process were created for the 2019/20 budget through three activities:
- public consultation
 - all-member presentations in October 2018 and January 2019
 - scrutiny of existing budgets in October 2018 and formal submissions for budget votes from the Environment and Communities Committees and the Place and Economic Development Sub-committee in January 2019.
- 5.3 Consultation with the public and local businesses was in the form of an online survey, with hard copies available for those who did not have internet access. 1,154 responses were received, along with 22 hard copies. Questions related to areas of spend but also sought views on the relative priority that residents and businesses place on the Council's objectives and on satisfaction with services received.
- 5.4 Of the five themes in the City Plan, the Healthy and Active theme is seen as the highest priority, while the Heritage City theme received less attention (Figure 1)

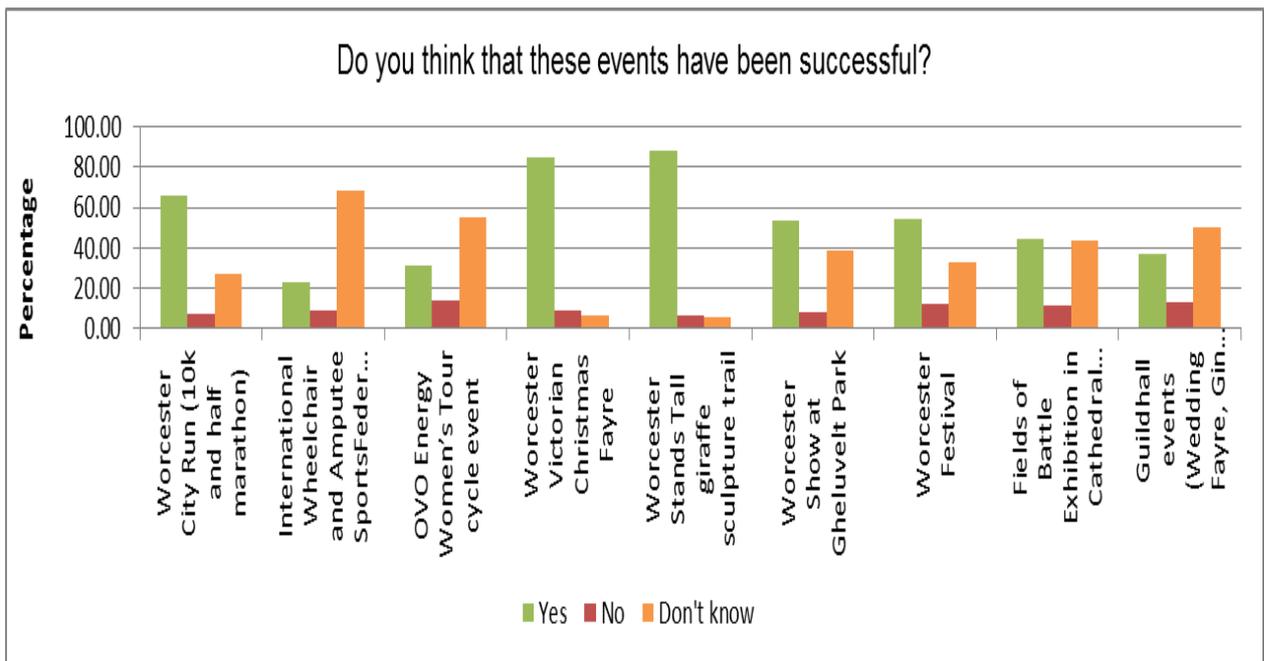
Figure 1: Response to public consultation on City Plan themes





5.5 Views on what the Council is already doing to deliver on these themes, above and beyond regular service activities, were positive, although stronger marketing for some events might be valuable in future. Figure 2 shows how well events put on or supported by the Council in 2018/19 were received. Worcester Stands Tall and the Victorian Christmas Fayre were major attractions while the International Wheelchair and Amputee Sports (IWAS) Federation Women’s World Games might have benefitted from wider publicity.

Figure 2: Public response to events and activities



5.6 Consultees were asked what the Council should do to attract more visitors and also what the Council should do to attract more businesses to the area. Altogether there

were 1,093 responses to these questions with suggestions ranging from 'a young entrepreneur festival' to 'events for the retired' and from 'looking to attract tech firms to the area which will bring in high quality jobs for people with skills' to 'Offer marketing advice to hotels, restaurants and travel companies'. The detailed responses will be summarised and considered by the Income Generation Committee as part of its work to strengthen the Council's income base.

5.7 The emphasis on public health and amenity identified in Figure 1 is supported to some extent by views on satisfaction with services. When results of 'not used' services are taken out, the highest satisfaction was for Rubbish Collection and Recycling (75.5%) and Parks and Play Areas (73.9%), suggesting that the public health aspects of the Council's work are well received (Figure 3).

Figure 3: Response to public consultation on satisfaction with services

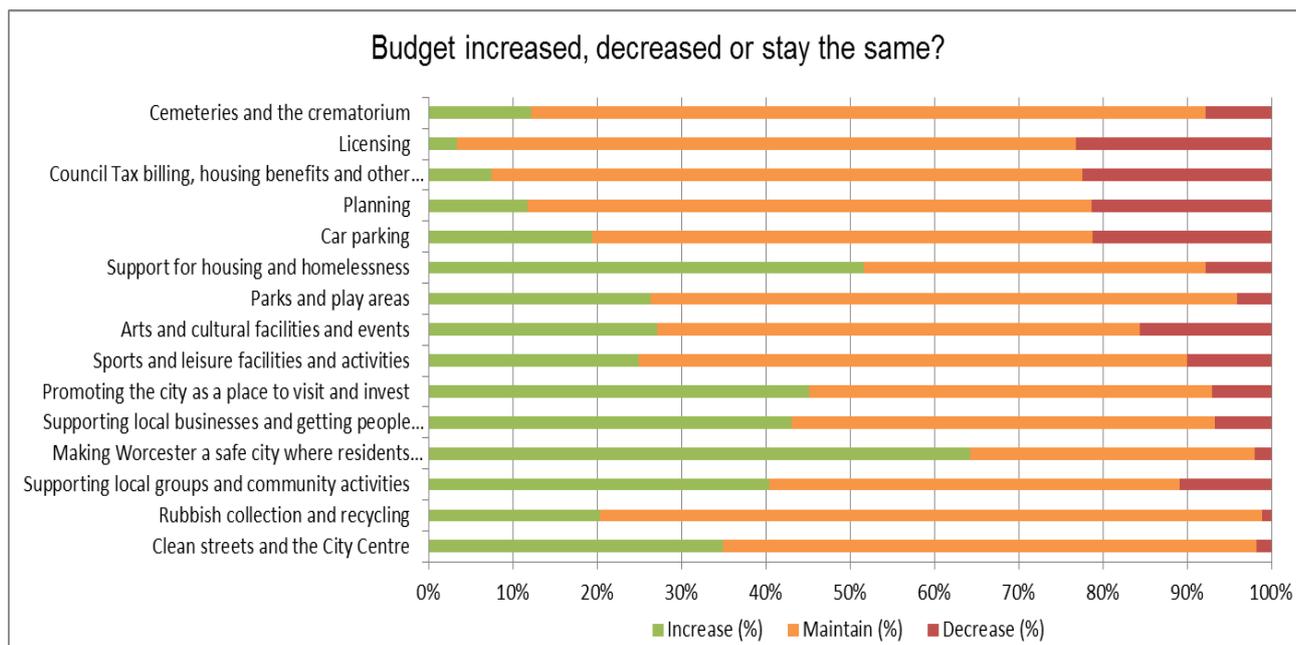


5.8 On the other hand, satisfaction scores for support for Housing and Homelessness and support for local business and getting people back into work were amongst the lowest. This is reflected in views on whether spending on services should be increased, maintained or reduced. Again there was a stronger emphasis on public health and prosperity, although in general terms there was a consensus that spending should be maintained or increased on the whole:

- The services with the highest number of responses to increase spending were:
 - Making Worcester a Safe City = 64.3%
 - Support for Housing and Homelessness = 51.6%
- The services with the highest number of responses to maintain spending were:
 - Cemeteries and the Crematorium = 80%
 - Rubbish and Recycling = 78.5%
- The services with the highest number of responses to decrease spending were:
 - Licensing = 23.2%
 - Council Tax billing, Housing Benefits and other payments = 22.5%

5.9 207 responses indicated other priorities. Detailed results are shown in Figure 4.

Figure 4: Response to public consultation on spending levels



- 5.10 Suggestions were invited as to how more income could be generated to support spending on council services. 421 responses were received, which compares with 236 suggestions received in 2018/19. These are also being considered by the Income Generation Sub-Committee but include ideas already underway such as making more use of the riverside and establishing a Council lottery.
- 5.11 Changes to revenue estimates have been incorporated into the 2019/20 budget to support these priorities. These include increased funding to maintain homelessness outreach services, maintenance of the DWAS programme and extra capital for CCTV. Proposals to support those facing hardship during the transition to Universal Credit will be considered by the Communities Committee in February. £300k has been set aside for the Riverside Park development and significant progress is being made on income generation opportunities following the establishment of a Property Development Fund in July 2018. These items have been included in the MTFP and previously reported to the Committee.
- 5.12 A schedule of revised fees and charges was considered and agreed by the Income Generation Sub-committee at its meeting of 15 January, along with financial implications. The majority of charges were increased in line with inflation with some additional increases to reflect increased costs, changes in the market place and alignment with competitors. The report of the Income Generation Sub-committee is presented elsewhere on the agenda for recommendation to Full Council as part of the budget-setting process.
- 5.13 During January, the Environment Committee, Communities Committee and Place and Economic Development Sub-committee considered potential changes to the budget estimates previously reviewed by each committee at its meeting in October and by the Policy and Resources Committee in November. Proposals received from the other policy committees are presented elsewhere on the agenda for consideration.

6. Capital Programme 2018/19 to 2023/24

- 6.1 An overall capital programme of £12.144m is proposed. This compares to a programme of £11.920m proposed for 2017/18 to 2022/23.
- 6.2 The programme includes items that have been reported at previous committees, subject to changes set out in section 2 of this report which are yet to be incorporated pending further decisions. Major additions to the capital programme are shown in Table 2.
- 6.3 The most significant change to the programme is the inclusion of estimated costs for the preparation for the demolition of the swimming pool at Sansome Walk. At its meeting of 17 July 2018, Full Council received a report on expected costs of £1.7m and a request to amend the capital programme accordingly, which was approved. Following initial works it became apparent that the demolition costs were likely to be substantially higher owing to the higher presence of asbestos on the site than had been identified.
- 6.4 Capitalisation of demolition works is dependent on the proposed intended use of the site – the purpose for the demolition – and cannot be finally estimated until this purpose has been agreed. Therefore the initial cost of £1.7m has been retained in the programme. Equally the capital grant of £750k has been included in capital funding while the option of using the site for housing as originally proposed remains.

Table 2: additions to five year capital programme

	Previous programme 2018/19	Revised programme 2019/20	Expected Total 2018/19 to 2023/24
	£000	£000	£000
Big Belly Bins	0	145	145
Car Park Machines	0	200	400
CCTV upgrade	0	548	548
Cripplegate tennis courts	0	200	200
Kiln (Copenhagen Street)	200	445	445
Public Realm	0	400	400
Red Diesel Pump	0	35	35
Sansome Walk Site	0	1,700	1,700

- 6.5 The capital programme is funded from a mixture of capital grants, capital receipts, use of reserves including S106 reserves, direct revenue funding or borrowing. In line with the Capital and Asset Management Framework, borrowing is not taken out unless other forms of funding are not available. Internal borrowing will be used in preference to external borrowing while the value of income from interest in investments remains below the cost of borrowing and there are sufficient reserves to enable funds to be released for capital purposes. The proposed funding for the capital programme is show in Table 3. The full programme is provided at **Appendix 3**.

Table 3: Proposed capital funding 2018/19 to 2023/24

Financing Source	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2019-24
	£000	£000	£000	£000	£000	£000	£000
External Grants	1,136	1,595	695	695	695	695	4,375
S106 Contributions	388	137	0	0	0	0	137
Earmarked Reserves	1,233	1,061	200	0	0	0	1,261
Capital Receipts	1,166	1,639	739	225	100	100	2,803
Revenue Financing	77	112	0	0	0	0	112
Borrowing (MRP)	156	993	150	50	1,378	885	3,456
TOTAL	4,155	5,537	1,784	970	2,173	1,680	12,144

- 6.6 The revenue implications of the capital financing proposals are reported to the Committee in the Treasury Management Strategy Statement 2019/20, which is included as **Appendix 4** to this report. These implications have been incorporated into the MTFP. The Treasury Management Strategy Statement also provides indicators to demonstrate that the Council is not borrowing in excess of its needs and, through a 'liability benchmark, is not borrowing where other cash resources are available.
- 6.7 Additional financing costs will be required as part of the development of an investment portfolio as reported to the Committee at its meeting of 30 July 2018. Two separate reports which are required by regulations and by the revised Prudential Code on Capital Accounting published by CIPFA in February 2018 are presented elsewhere on the agenda. These detail the strategic approach to borrowing and investment of the Council in the coming year and over the lifetime of the MTFP.
- 6.8 Capital spending and funding have not included estimates in relation to spend from the Development Fund or other forms of non-financial investment. No proposals are sufficiently developed at the date of this report to include robust estimates in the programme. Any proposed changes will be brought for consideration by the Committee during the financial year.

7. Impact on reserves

- 7.1 The Council's policy is to maintain a minimum of £1.1m in General reserves. The overarching principle of the budget-setting process is that this level of reserves will be maintained over the lifetime of the MTFP. **Appendix 1** shows that the minimum level of reserves will be maintained in each of the five years of the MTFP if the budget proposals outlined above are accepted. Maintenance of this position is dependent upon the following assumptions:
- that the level of Council Tax increases is maintained in line with the Government projection of a maximum of 2.99% for 2019/20 and, as proposed, at the same level throughout the five year period
 - that the savings identified in the Income and Efficiency Programme are achieved according to the schedule, or alternative savings are identified should some of the original proposals not be achievable

- no additional net borrowing costs are incurred above that budgeted and interest rates are maintained at the projected levels
- there are sufficient earmarked reserves to meet the agreed development programmes for which those reserves were identified.

7.2 The level of projected earmarked reserves is summarised in Table 4

Table 4: Projected earmarked reserves at 31 March 2019

Reserve	Balance at 31 March 2018 £000's	Transfer to Reserves £000's	Transfer from Reserves £000's	Reclassifications between Reserves £000's	Balance at 31 March 2019 £000's	Uncommitted Reserves £000's
TRANSFORMATION FUND	1,015	0	(672)	0	343	32
INCOME GENERATION FUND	380	0	0	0	380	140
SERVICE SPECIFIC EARMARKED RESERVES	4,378	907	(1,373)	(219)	3,692	0
SMALL PROJECTS DEVELOPMENT FUND	168	0	(39)	0	129	0
CITY PLAN FUND	2,176	1,077	(637)	219	2,836	2,452
RISKS FUND	1,381	0	0	0	1,381	1,381
TOTAL RESERVES	9,498	1,984	(2,721)	0	8,761	4,004

7.3 For clarity, four existing Service Specific Earmarked Reserves have been redefined as 'risk reserves' as these represent funds held to mitigate potential changes in demand-led services. This change reflects the Council's increased reliance on local taxation and the generation of income from services. These are shown in Table 5.

Table 5: Risk reserves estimated balances as at 31 March 2019

Reserve	Estimated balance at 31 March 2019 (£)
Worcester County Hardship grant	77,278
Cold Weather Prevention Service	46,788
Income Contingency	495,250
Localised Business Rates	761,276
Total	1,380,592

8. Preferred Option

8.1 That the Committee recommends to Council the budget proposals set out in this report.

9. Alternative Options Considered

- 9.1 Alternative budget proposals have been considered by the policy committees of the Council and are presented to the Committee for consideration elsewhere on the agenda.

10. Implications

10.1 Financial and Budgetary Implications

As detailed in Appendix 1 the draft budget proposes a contribution to general reserves of £27k in 2019/20 and will result in a balanced budget over the lifetime of the MTFP 2019-2024.

10.2 Legal and Governance Implications

There are no legal and governance implications arising directly from this report.

10.3 Risk Implications

Achievement of the proposed budget is dependent on the relevant assumptions proving accurate and no unexpected changes in anticipated funding levels. In the opinion of the Section 151 officer the budget estimates are considered to be robust and, in the event that unforeseen incidents occur which require additional resources, there remain sufficient general reserves to meet these requirements.

In terms of future financial planning, as expressed in the MTFP, estimates for later years are always subject to a degree of risk. In particular, the financial settlement for 2019/20 included two consultations on funding of local government and business rates retention. There are also no formal guarantees at this stage that the New Hones Bonus minimum threshold will remain at the current level or that the NHB itself will remain a funding stream in the future. Further consideration to these matters is included in the following paragraphs.

Fair Funding

The consultation on the MHCLG publication: ***A review of local authorities' relative needs and resources*** was opened on 13 December 2018 and closes on 21 February 2019. The document sets out the means by which the department will determine the relative needs of each local authority within the overall funding available for local government from 2020/21. This is important as it will determine the level of Council Tax that local authorities will be able to raise without a referendum and the amount of business rates collected to be retained by each billing authority.

For the past four years Council's have been advised on the Council Tax increase limits annually, with a notional amount, set at this maximum level, being included as assessments of 'spending power'. The consultation suggests that this 'notional' figure approach can be used going forward. This will give councils certainty over the next spending review period but may potentially lead to reduced resources if councils are not able to achieve the maximum permissible increase.

The consultation also proposes increasing the value of sparsity and rurality factors, reducing allowances for deprivation and changing the balance of area cost adjustments which reflect the high cost of wages, goods and services in some areas of the country. Each of these changes will tend to be to the disadvantage of urban district councils outside the South East, such as Worcester City.

Finally the consultation document considers taking other sources of income into account when assessing the relative needs of individual councils. The document includes the following statements:

'...the Government recognises that there are practical challenges in taking a direct account of sales, fees and charges income through the resources adjustment and we are therefore broadly minded not to do so.'

'However, there may be a case for taking specific service areas into account which have generated an increasingly significant level of surplus income for some authorities, such as on and off-street parking.'

The Council has budgeted income of approximately £3.6m from off- and on-street car parking each year. It is not clear how much, if any, of this will be taken into account in assessing the Council's relative needs under the new funding arrangements.

Business rates retention

As part of the 2018/29 settlement the Government announced that it intends to allow local authorities to retain 75% of business rates collected locally from 2020/21. This does not mean that each Council will automatically have an increase in business rates income as all councils must pay a 'tariff' or 'top-up' into the system to compensate local authorities that do not raise sufficient business rates to meet their needs. In Worcester City's case the tariff goes into the business rates pool as part of the County Council's 'top-up'. The level of the tariff is determined by the assessment of relative needs, which is now being considered, as outlined above.

As part of the 2019/20 settlement, MHCLG confirmed that there will be a full business rates reset from 1 April 2020. This means that any growth achieved since the needs assessment was first made in 2013/14 is at risk of being included in the tariff. Since 2013 the Council has achieved business rates growth of £733k per annum above its baseline assessment. This sum is at risk. A risk reserve of £761k has been established to help mitigate this risk should it arise and existing risk reserves within the pool are also available.

New Homes Bonus

The consultations published in December 2018 did not include any consultation proposals about the New Homes Bonus. However there are no guarantees that the system will continue unchanged beyond the next financial year and therefore limited reliance can be placed on this as an income stream for revenue purposes.

The 2019/20 NHB stream has been approved and will continue for four years, subject to any decision by the Minister. For the financial year 2019/20 the Council will receive a total of £1.527m. For the remaining years of the MTFP, the NHB estimates are broadly comparable such as to sustain this level of funding for each

year. In the event that NHB is discontinued from 2020/21, the level of funding will reduce by £2.054m in total to 2022/23. As the Council allocates in broad terms only 50% of this funding to revenues, the impact on services will be a reduction of £1.027m over the three years.

Income risk

As a result of the withdrawal of Government Funding through the revenue Support Grant, the Council is becoming increasingly reliant on income from services and investments to maintain its functions. In total, the Council has budgeted income for 2018/19 from fees and charges of £8.21m, which is 80% of grant and taxation financing. If New Homes Bonus is included in income from activities, the Council generates more from these sources than Council Tax and Business Rates taken together.

To mitigate the impact of reductions in income from fees and charges an Income Risk Reserve has been created. This has a projected balance of £495k at 31 March 2019. The approach to mitigating risk in respect of investment activities is set out in the Capital Strategy and Investment Strategy which are reported elsewhere on the agenda.

10.4 Corporate/Policy Implications

The MTFP allows approximately 50% of anticipated New Homes Bonus payments to support delivery of the City Plan. It is anticipated that a further £736k will be available from 1 April 2019 to support the Plan, in addition to the £2.836m projected to be available at 31 March 2019. These additional resources are already committed to existing schemes identified in Appendix 8 to the budget report to Council of February 2018. Also, as agreed by the Council at that meeting, any underspend for 2018/19, net of any General Fund balancing requirements, will be allocated to the City Plan to support those existing approved programmes. All of the City Plan Fund, including these estimated additions, is allocated to specific schemes, subject to the detailed business cases being submitted for each proposal, with the exception of an estimated £221k which is not allocated to any scheme at the date of this report.

10.5 Equality Implications

The budget proposals are designed to ensure the continuation of services to meet the needs of all residents of the City and other stakeholders in so far as available resources allow.

10.6 Human Resources Implications

Achievement of the Transformation Plan savings may require reductions in posts over the 5 years of the MTFP. It is proposed to manage these through a combination of vacancy management, reduction in use of agency staff, retraining and reskilling of staff and voluntary severance.

10.7 Health and Safety Implications

None arising directly from this report.

10.8 Social, Economic and Environmental Implications

The budget proposals have taken into account feedback from residents and local businesses and have been subject to scrutiny by Members and officers of the Council. No services will be reduced as a result of the budget proposals and there are commitments, as set out in section 5 where the Council, if the proposals are accepted, is committing to allocating funding from reserves to enhance local facilities, increasing funding in specific areas, and/or maintaining funding in areas where other agencies are no longer able to support services financially.

Further social, economic and environmental implications have been included in consideration of the individual proposals submitted to the relevant Policy Committees or to the Policy & Resources Committee that from the basis of changes to the budget between 2018/19 and 2020/21 and over the lifetime of the MTFP.

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Background Papers: **Previous reports to Policy & Resources Committee, October and December 2017, and Reports to policy committees January 2018**