SOUTH KESTEVEN DISTRICT COUNCIL

Finance, Economic Development and Corporate Services Overview and Scrutiny Committee

16th July 2019

Report of: Councillor Adam Stokes
Cabinet Member for Finance

2020/21 Funding Update

This report provides Finance, Economic Development and Corporate Services Overview and Scrutiny Committee with an update of the 2020/21 funding position for General Fund.

Report Author

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Corporate Priority:	Decision type:	Wards:
Administrative	**Administrative**	**All Wards**

Reviewed by:	Gill Goddard, Senior Accountant	3 July 2019
Approved by:	Richard Wyles, Director of Finance	3 July 2019
Signed off by:	Councillor Adam Stokes, Cabinet Member for Finance	5 July 2019

Recommendation to the decision makers

Finance, Economic Development and Corporate Services Overview and Scrutiny Committee is asked to:

1. **Notes the updated funding position for 2020/21**

1 The Background to the Report

1.1 The purpose of this report is to update members with the medium term funding position for General Fund. It covers:

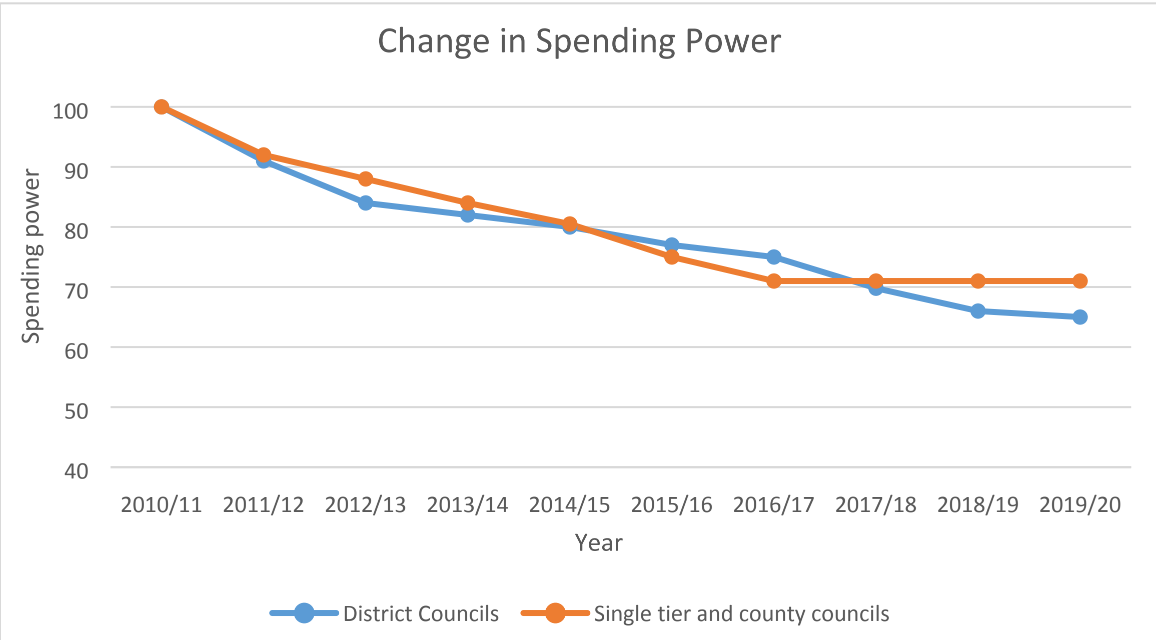
- The reduction in funding from 2010/11 to date
- The Fair Funding and Business Rates Retention reviews
- The impact of the reviews on the MTFP for 2020/21

2 Consultation and Feedback Received, Including Overview and Scrutiny

2.1 This report provides members with details on the impact of the funding cuts since 2010/11 on local government and the future of funding for local government along with the impact of the potential delays to both the Fair Funding and the Business Rates retention reviews.

3 Funding Challenges

3.1 Following the introduction of the austerity measures by Central Government in 2010/11 local government has had a real term reduction in spending power of approximately 28.6% due to the reduction in funding which has been received. The following graph shows that the cuts for upper tier authorities have levelled off since 2016/17 but have continued for district councils.



3.2 The sector has responded to the funding cuts by reducing expenditure although the overall response can be split into two time periods, 2010/11 to 2013/14 and 2013/14 to 2016/17 as there has been a noticeable shift in the actions the sector during these periods to deal with the cuts.

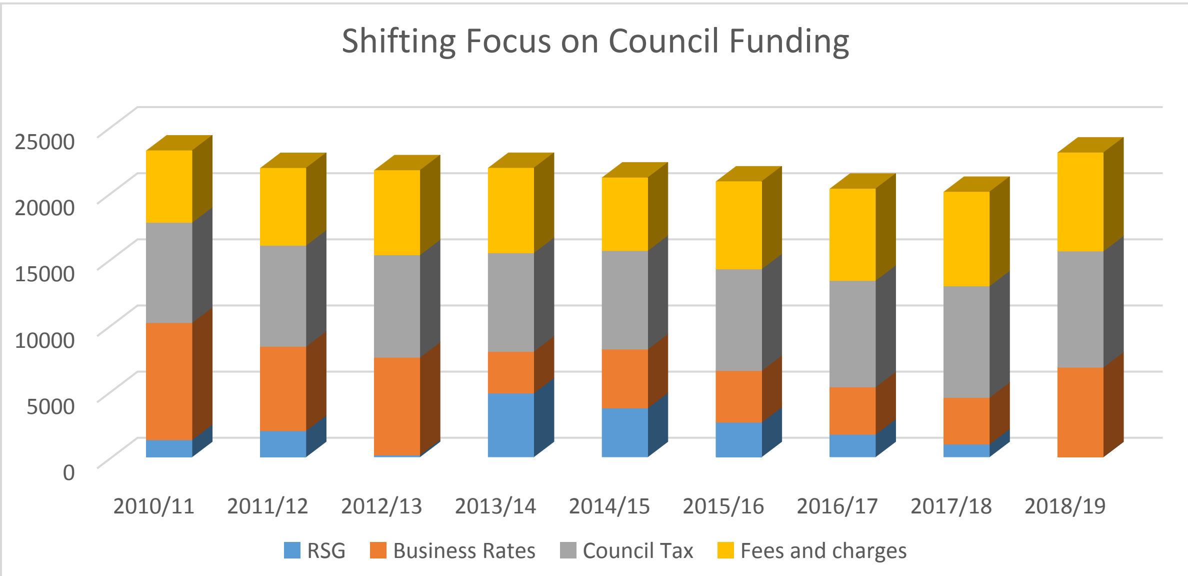
Table 1 – the sector response to funding cuts

	2010/11 to 2013/14	2013/14 to 2016/17
Change in service spend	(£7.2bn)	(£2.6bn)
Change in non-service spend (debt profiling etc)	£800m	(£900m)
Change in Investment and Trading Income	£100m	£500m

3.3 Table 1 details that in the early years of the funding cuts, the sector responded by significantly reducing the expenditure incurred on service spend, where as in the latter period the focus shifted to reducing non-service spend and increasing investment and trading income as Councils have moved towards a more commercial focus.

3.4 There has also been an increase in the fees and charges income received across the sector as local authorities are offsetting the funding reductions by increasing the charges to service users. There has been an increase in sales, fees and charges income of 11% from 2010/11 to 2017/18 and this income now accounts for 29% of total spend compared with only 20% in 2010/11.

3.5 The following chart shows how the split of funding has changed for South Kesteven District Council between 2010/11 and 2018/19 and supports the increased importance of income from fees and charges. The council no longer receives Revenue Support Grant (RSG) and is restricted on the amount of additional income that can currently be raised from Council Tax due to the referendum limits that are in place. The future income to be received from retained business rates is uncertain due to the Business Rates Retention review. It should be noted that the council piloted the 100% business rates retention scheme in 2018/19 which resulted in additional income being received.



4 The current funding position

4.1 Central Government completed a spending review during 2015/16 which provided local authorities with funding information for a period of four years from 2016/17 following the submission and approval of an efficiency plan. The Council was successful in securing a four year deal and 2019/20 is the last year of the deal. Therefore the relatively secure financial certainty that the four year deal provided has now elapsed and the Council is facing funding uncertainty from next year making medium term financial planning extremely challenging.

4.2 No funding information has been released for 2020/21 onwards as the Government announced in 2017/18 that a fair funding review would take place. The overriding objective being to fundamentally replace the current complex formula driven system with a simplified, more transparent formula. In addition to this review the Government announced in 2017 that the Business Rates Retention Scheme would also be reviewed which is anticipated to increase the retention rate from 50% to 75%. The Business Rates review also introduces additional as since 2013 councils have been able to retain the business rates growth but it is probable that this growth will be lost under a full review as funding is equalised across the country.

4.3 The Government launched these consultations in December 2018 for both the Fair Funding Review and the Business Rates Retention Review which closed in February 2019. The Fair Funding Consultation focused on three areas:

- Relative need Area Cost Adjustment – the consultation proposed adjusting for differences in labour costs and premises costs and accessibility and remoteness to ensure that these reflected the impact of journey times on labour costs to account for additional costs associated with sparsity, density, market conditions and economies of scale.
- Relative Resources - this focuses on other funding streams that Councils have access to and can generate additional resources from – Council Tax income, car parking income etc
- Transition – the consultation proposed that the starting baseline for the purposes of transition should be a measure of the funding available to each local authority in 2019/20

4.4 The Business Rates Retention Review focused on two broad areas:

- The right balance of risk and reward in the business rates retention system. Local authorities should continue to receive the benefit of growth they achieve in their local areas.
- Summaries the work undertaken to develop options to mitigate volatility in income and address the impact of appeal losses on local authorities.

4.5 The responses to the consultation can be summarised as follows:

- In principle support for an alternative model for the distribution of business rates with a phased reset.
- The continuation of a safety net threshold was supported as this would continue to ensure that council's receive a minimum level of income to fund expenditure.
- Strong support for local negotiation of tier splits but for MHCLG to also set a default split.
- Support for criteria to be set to assess whether properties should be on a Central List which would remove the income volatility experienced by some councils.

4.6 Although the consultation process has been finalised the Chancellor has indicated that due to other political pressures the implementation of the Fair Funding and Business Rates Reviews could be delayed by one year.

4.7 This potential delay provides three potential scenario's which could be used to estimate funding for the 2020/21 budget setting process:

- Scenario one - One year spending review with no funding reform;
- Scenario two - One year spending review plus funding reform;
- Scenario three - Three year spending review plus funding reform.

4.8 Scenario one provides the most certainty regarding the funding for 2020/21 as there would be no change to the current allocation of government grants, New Homes Bonus would be allocated under the current system, Business Rates would continue to operate under the current system so the council would retain the growth achieved to date and it is probable that the council tax referendum limit would remain the higher of 3% or £5. Whereas the second two scenarios provide the least amount of certainty as all of the funding allocations under the current system would be subject to change.

5 The Medium Term Financial Plan

5.1 The 2019/20 to 2021/22 Medium Term Financial Plan that was presented to Council in March 2019 assumes that the funding reviews will both be implemented in 2020/21 which results in a budget deficit position of £0.915m, if this is delayed by one year then it is not anticipated that there will be a deficit in 2020/21 but the deficit would re-emerge the following year. This is shown at Table 2.

Table 2 – 2020/21 Updated Budget

Description	**2020/21 - Indicative Budget £000**	**2020/21 - Updated Budget £000**	**2021/22 - Indicative Budget £000**
Commercial & Operations	5,567	5,567	6,014
Growth	6,466	6,466	6,493
Resources	7,098	7,098	7,399
HRA Recharge	(2,513)	(2,513)	(2,556)
Net Cost of Services	**16,618**	**16,618**	**17,350**
Interest Payable & Investment Income	123	123	120
Minimum Revenue Provision	502	502	496
Depreciation	(3,766)	(3,766)	(4,170)
Net Budget Requirement	**13,477**	**13,477**	**13,796**
Funding & Resources:			
Council Tax (Excluding Parishes)	(7,815)	(7,815)	(8,170)
Revenue Support Grant	98	98	0
Retained Business Rates	(4,132)	(4,962)	(3,974)
New Homes Bonus	(1,576)	(1,756)	(1,490)
Total Funding	**(13,425)**	**(14,435)**	**(13,634)**
Total Transfer to Reserves	**863**	**863**	**1,016**
NET BUDGET DEFICIT/(SURPLUS)	**915**	**(95)**	**1,178**

5.2 Table 2 currently only shows indicative budgets for 2020/21 which will be reviewed and updated once the budget setting gets underway in the coming weeks. Therefore it is anticipated that the budgetary information shown in the table will change. It should be noted that the spending review is not expected to be delayed by more than one year so it is important that the focus remains on the ambitions set out in the Corporate Strategy in order to ensure that a balanced position is achieved over the medium term.

6 Reasons for the Recommendation

6.1 In accordance with the terms of reference of the Committee, the report is presented for members consideration.

7 Financial Implications

7.1 These are included in the report

Financial Implications reviewed by: Richard Wyles, Director of Finance

8 Legal and Governance Implications

8.1 There are no legal implications arising from this report.

Legal Implications reviewed by: Shahin Ismail, Interim Head of Legal

9 Equality and Safeguarding Implications

9.1 Not applicable

10 Risk and Mitigation

10.1 Risk has been considered as part of this report and no specific high risks have been identified.

11 Community Safety Implications

11.1 Not applicable

12 Other Implications (where significant)

12.1 Not applicable

13 Background Papers

13.1 None

Report Timeline:	Date of Publication on Forward Plan (if required)	N/a
	Final Decision date	N/a