

 Executive 12th February 2020 Council 26th February 2020		Agenda Item No. 4
Title	2020/21 General Fund Budget and Council Tax	
For further information about this report please contact	Mike Snow 01926 456800 Andrew Rollins 01926 456013	
Wards of the District directly affected	N/A	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No	
Date and meeting when issue was last considered and relevant minute number	18 th December 2019 (Executive) General Fund Base Budgets 2020/21	
Background Papers		

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes -
Equality Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	26/1/2020	Chris Elliott
Head of Service	26/1/2020	Mike Snow
CMT	26/1/2020	
Section 151 Officer	26/1/2020	Mike Snow
Monitoring Officer	26/1/2020	Andy Jones
Finance	26/1/2020	Andrew Rollins
Portfolio Holder(s)	26/1/2020	Richard Hales
Consultation & Community Engagement		
Final Decision?	Yes	

1. **Summary**

- 1.1 This Report informs Members on the Council's financial position, bringing together the latest and original Budgets for 2019/20 and 2020/21, plus the Medium Term Forecasts until 2024/25. It advises upon the net deficit from 2024/25 and the savings required to balance future years' Budgets.
- 1.2 This report will be presented to Full Council alongside a separate Report recommending the overall Council Tax Charges 2020/21 for Warwick District Council.
- 1.3 The report presents a balanced Budget for 2020/21, something which the Council has been able to achieve without having to reduce the services it provides. This has been the case for many years as a result of the Fit for the Future Programme it has adopted. Once again it has not had to rely on New Homes Bonus to support core revenue spending and has been able to allocate this funding to supporting specific project work, while also replenishing reserves.
- 1.4 The Council is forecasting to achieve a surplus on its 2019/20 Budget. However, the Council's financial projections show that further savings need to be secured to mitigate the deficit currently forecast from 2020/21 onwards.
- 1.5 The core increase proposed for Council Tax for 2020/21 is £5 per annum at Band D, in line with the maximum permitted under the relevant Council Tax Regulations.
- 1.6 However, in view of the Climate Emergency declared by the Council, the Executive are proposing to create a Climate Emergency Reserve to go towards funding the items within the Climate Emergency Report on this agenda. It is proposed to increase Council Tax by a further £1 per week at Band D, £52 per annum, which will enable approximately £2.9m to be allocated to the new reserve in 2020/21, and similar sums in subsequent years.
- 1.7 If this increase is agreed by Council on 26 February, as this increase in Council Tax will be classed as excessive, it will be necessary for the Council to hold a referendum and obtain a "yes" vote before being able to maintain the increase.
- 1.8 An authority proposing to set an excessive council tax level is also required to make substitute calculations which will take effect if the proposed amount of council tax is rejected in a referendum, these are attached to this report.
- 1.9 Based on the current assumptions it is proposed to recommend a revenue budget of £20.205m for 2020/21 which will result in an increase in Council Tax of £57.00 per Band D property. Substitute calculations have also been made based on a £5.00 increase resulting in a revenue budget of £17.301m. This is set out in the Appendix A.

2. **Recommendations**

The Executive recommend to Council to approve or to note as appropriate: -

- 2.1 The proposed changes to 2019/20 Budgets detailed in Section 3.2.

- 2.2 The Revised 2019/20 Budget of Net Expenditure of £19,790,607 (Appendix 2) after allocating a surplus of £202,000, and the further changes to the current year budget (paragraphs 3.2.2).
- 2.3 The proposed changes to 2020/21 Base Budgets detailed in Section 3.3.
- 2.4 The proposed Budget for 2020/21 with Net Expenditure of £20,204,988 taking into account the changes detailed in section 3.3, with a deficit of £1,600,100, prior to use of reserves, as summarised in Appendix 2.
- 2.5 Subject to approval of the above Budget 2020/21, the Council Tax charges for Warwick District Council for 2020/21 before the addition of Parish/Town Councils, Warwickshire County Council and Warwickshire Police and Crime Commissioner precepts, for each band is agreed by Council as follows (3.6.7):-

	£
Band A	149.24
Band B	174.11
Band C	198.99
Band D	223.86
Band E	273.61
Band F	323.35
Band G	373.10
Band H	447.72

- 2.6 Note the projected deficit within the Medium Term Financial Strategy and the proposal to initially fund this from the Business Rate Retention Volatility Reserve, and how new savings or income generating initiatives are needed to come forward to be agreed within 2020/21 so as to avoid reductions to service provision (section 3.8).
- 2.7 Approve the reserve projections and allocations to and from the individual reserves as detailed in Section 3.9.
- 2.8 Approve the ICT Replacement and Equipment Renewal Schedules (Section 3.9.3).
- 2.9 Approve a new Climate Emergency Reserve (Section 3.9.3), with funding from the £52 increase in council tax at Band D, subject to a positive result from a local referendum. It is proposed that funding from this reserve is agreed by the Executive.
- 2.10 Approve the General Fund Capital and Housing Investment Programmes as detailed in Appendices 9 parts 1 and 2, together with the funding of both programmes as detailed in Appendices 9 parts 3 and 4 and the changes described in the tables in section 3.10 and Appendix 8.
- 2.11 Approve the Financial Strategy (para 4.2 and Appendix 11).
- 2.12 Approve the 2020/21 proposed New Homes Bonus of £3,726,100 is allocated as follows, as detailed in paragraph 3.13.3:

New Homes Bonus – 2020/21 Allocation	£
Waterloo Housing Association	125,800
Commonwealth Games Reserve	150,000
Sea Scout’s Headquarters	350,000
Masters House	500,000
Public Amenity Reserve	140,000
Leisure Options Reserve - Kenilworth Leisure interim development costs	740,000
Financial Management System	600,000
H&CP System	300,000
General Fund Early Retirements Reserve	15,000
Project Legal Costs	98,000
Service Transformation Reserve	707,300
Total Allocated	3,726,100

- 2.13 Approve that the Section 151 Officer, in consultation with the Finance Portfolio Holder, is duly authorised to approve any business rate relief changes agreed by the Government to be incorporated into the 2020/21 Business Rate Billing.
- 2.14 That Executive approves the proposed allocation of £1,071,700 for the 2020/21 Corporate Property Repair and Planned & Preventative Maintenance (PPM) Programmes to fund the list of proposed works set out in Appendix 10, and approves the drawdown of funding from the Corporate Asset Reserve of up to £658,700 to support the 2020/21 programme.
- 2.15 That Executive agrees that the Assets Manager, in consultation with the Deputy Chief Executive (BH) and the Procurement Manager, is authorised to procure the proposed PPM works as per the Code of Procurement Practice, and delegates authority to the Assets Manager, the Deputy Chief Executive (BH) and the Head of Finance, in consultation with the Finance Portfolio Holder and the Leader of the Council, to approve any amendments to the proposed programme of works listed at Appendix 10 and/or revisions to the amount of budget allocated for specific schemes, provided these can be accommodated within the overall PPM budget allocation of £1,071,700.
- 2.16 Members note the operational, legal, reputational and financial risks in setting an excessive council tax as detailed in the Risks section and at Appendix 12.
- 2.17 Agree the Substitute Recommendations within Appendix A.

3. **Reasons for the Recommendations**

3.1 **Mandatory Obligations**

- 3.1.1 By law, the Council must set a balanced budget before the start of the financial year. As part of this process it must levy a council tax from its local tax payers to contribute to financing General Fund expenditure.
- 3.1.2 It is prudent to consider the medium term rather than just the next financial year, taking into account the longer term implications of decisions in respect of 2019/20. Hence, Members receive a 5 year Financial Strategy, Capital Programme and Reserves Schedule.

3.1.3 The Local Government Act 2004, Section 3, states that the Council must set an authorised borrowing limit. The CIPFA Code for Capital Finance in Local Authorities states the Council should annually approve Prudential Indicators.

3.1.4 The Chief Financial Officer is required to report on the robustness of the estimates made and the adequacy of the proposed financial reserves. (This statement is made at Appendix 1).

3.2 2019/20 Revenue Budget

3.2.1 Within the Base Budget report considered by the Executive in December, the 2019/20 Budget was showing a surplus of £469,400. A number of changes have been made to the base budget since, with the most notable being: -

- Appraisal software licence to support new housing / asset projects, funded 50:50 between the Housing Revenue Account and General Fund (£10,000 p.a. recurring being the GF cost).
- Savings made within Neighbourhood Services following reviews of existing budgets £11,500 and within Policy and Projects following the release of an Earmarked Reserve relating to the unsuccessful Channel 4 bid £14,500.
- A backdated reduction in income from the General Markets contract following overpayments (£26,600).
- New contract for insurance premium – saving on the contract will be an additional £41,000 in 2019/20 (GF element), on top of the £50,000 saving reported in the December Executive Report.
- Elections printing, postage, tablets for Electoral registration and the December By-Elections costs £77,000.
- Additional budget to support the ongoing Christmas lights and events expenditure £45,000.
- Additional recurring Car Parking management costs for the National Bowls Championships £7,000.
- Increased Private Sector Housing / Homelessness legal fees £28,000 recurring.
- The Quarter 2 surplus (reported to Executive November 2019) has been allocated to top up the Contingency Reserve (£125,000). From this £60,000 has been used for the Masters House urgent repairs, and £56,000 used to fund a temporary Principal Accountant post to support Final Accounts, agreed at November Executive.

3.2.2 The 2019/20 budget now shows a projected surplus of £202,000, which has then been allocated to the Business Rate Retention Volatility Reserve the treatment of which is considered in Section 3.13.

3.3 2020/21 Revenue Budget

3.3.1 The Base Budget report showed that the 2020/21 Budget had an estimated deficit of (£460,600). The following notable changes have subsequently been made to this base budget: -

- New contract for insurance premium – saving on the contract will be an additional £34,800 per annum (GF element), on top of the £50,000 saving reported in the December Executive Report.
- Reduction in market contract income (£6,600 recurring) under the terms of the General Market Contract.
- Cleaning contract recurrent savings (£26,300 recurring).
- Increase in gas supply contract costs (£21,600 recurring).
- Observer status of the West Midlands Combined Authority (£25,000 recurring).
- Senior Management Team Review as agreed by December Employment Committee (£47,000 recurring).
- New Planning Policies Assistant (£33,000 recurring).
- Recruitment costs for Head of ICT and Climate Emergency Programme Director (£20,000).
- Fixed term HR Business Partner (£34,000).
- Newbold Comyn grounds maintenance contract costs (£40,000 one-off), pending current review of future use.
- Estimated increased cost of new Financial Management Systems (£40,000 recurring).
- VE Day Celebrations – additional funding to be awarded by Community Forums (£8,000 one-off, £10,00 per Forum).
- Increased use of planning consultancy (£47,000 recurring).
- Housing restructure – This was agreed at Employment Committee in December, and due to commence in April (£55,700).
- Establishment of a 2020/21 contingency budget to support unavoidable growth (£200,000)
- Kenilworth Wardens – The November 2019 Executive agreed to advance £300k to Kenilworth Wardens Cricket Club to help facilitate submit a planning application and achieve all the necessary consents for its relocation. Whilst there will be a charge on their land as security, there is no certainty when the Council will benefit from this. Consequently, it is proposed to include this in the 2020/21 Budget.
- Kenworth Rugby Club – similar to Kenilworth Wardens, the Rugby Club also requires advance funding. Again this is proposed to be included in the 2020/21 Budget. Phasing of funding is proposed so that this is in due course funded from the 2021/22 New Homes Bonus. There is a further report to come on this in March to seek Council approval.
- Committee Subsistence - In recognition of the length of some scrutiny committee meetings the Executive wish to provide buffet refreshment before these meetings. Based on quote from the current provider and recognising the

price increase in this from April, this is anticipated to be at a cost of £2,500 per annum.

- 3.3.2 Following on from the 2019 Triennial revaluation of the Warwickshire Local Government Pension Fund, the employer contribution rates for 2020/21 to 2022/23 have been agreed. These represent an increase from 19.6% to 19.9% which has been factored into the budget. The Council has the opportunity to pay all three years' employer contributions up front in April 2020, amounting to a payment of £7.7m, using its cash balances. This will represent a net saving of approximately £100k per annum, after taking into account the cost of the reduced investment interest. The accounting arrangements for this will still spread the cost over the relevant financial years. The main benefit from this arrangement arises from the fact that the pension fund is able to invest the funds as part of larger, longer term investments, and so achieve an increased return over what the Council will achieve on cash balances.
- 3.3.3 These arrangements are being proposed after discussion with the actuaries, external auditors and lawyers. Other local authorities have followed this approach in the past, with several of the Warwickshire councils now proposing to follow suit. The net saving from this has been factored into the 2020/21 Budget and Medium Term Financial Strategy.
- 3.3.4 The projected Collection Fund Balance as at 31 March 2020 has been calculated to be a deficit of £1.8m. Whilst there has been new property growth in the district, this has been slower than anticipated when the tax base was set in November 2018 for 2019/20. Warwickshire County Council and the Warwickshire Police and Crime Commissioner were duly notified of their shares on the 15th January 2020. This Council's share is £185,000. This has been factored into the 2020/21 Budget as a one-off item.
- 3.3.5 Taking into account all known changes, the 2020/21 budget shows a deficit of (£1.6m). Again, the treatment of this is considered in section 3.13.

3.4 Local Government Finance Settlement

- 3.4.1 The Government announced the provisional 2020/21 Finance Settlement in December. The Final settlement is expected to be confirmed shortly, ahead of the Council being due to agree its 2020/21 Budget and Council Tax in February. No changes are expected to the Final settlement, but members will be duly informed if necessary.
- 3.4.2 Until 2018/19 the Council was in receipt of Revenue Support Grant. As with most local authorities, this had been reduced in previous years as councils have become more reliant of funding from business rates and council tax.
- 3.4.3 2020/21 was originally planned to be a major year in respect of local government finance as the following changes were due to come into place: -
- 2019 Fair Funding Review.
 - New Business Rates Retention scheme based on 75% retained in local government, in place of the current 50% scheme.
 - Reset of the Business Rates Baselines to reflect changes in rates collected locally since the scheme was introduced in April 2013.

In the Autumn it was announced that these changes are now planned for 2021/22.

3.5 Business Rates

- 3.5.1 Under the current Business Rate Retention Scheme, the Council currently receives approximately £5m per annum. Whilst the business rates base is relatively stable, complexities within the Retention Scheme mean that the element retained by the Council may fluctuate substantially year on year. The causes of these fluctuations are primarily: -

Appeals – There are still many appeals awaiting determination by the Valuation Office. An assessment of the success of these needs to be made and suitable provision has been allowed for within the estimated figures. Whilst it is hoped that this figure is suitably prudent, given the size and nature of some of the appeals, there remains a risk. April 2017 saw the introduction of the new “Check, Challenge, Appeal” regime seeking to expedite appeals and deter speculative appeals. Following previous revaluations, backdated appeals continued to be lodged for several years. The number of new appeals coming forward since April 2017 continues to be minimal. However, it is still expected that a significant number of appeals will come forward in subsequent years that will be backdated to 2017. It is necessary for an estimate of these future appeals to be allowed for in the 2019/20 and 2020/21 Estimates.

Accounting for the “Levy” - Under the Business Rate Retention Scheme, the timing of transactions, notably in respect of the “Levy” paid to central government, will result in substantial swings in the net rates retained by the Council in any specific year.

- 3.5.2 Due to these significant fluctuations in the business rates that the Council gets to retain in any individual year, in common with most other local authorities, it retains a Business Rate Retention Volatility Reserve. Since 2018 the balance on this reserve continues to grow and is forecast to be £4.1m as at March 2025, prior to the use of this reserve discussed in paragraph 3.8.8. The need for this reserve is most significant from April 2021 when the new Business Rate Retention Scheme is due to come into place. From that date it is expected that the Council’s share of business rates will reduce to more closely align to the Baseline (currently £3.4m) as it loses its share of increases to the business rate base. A reduction in retained business rates has been allowed for in the projections from 2021/22. However, it is important that reserve funding is allowed for in case the position from 2021/22 is worse than forecast.
- 3.5.3 Since the start of the Business Rate Retention Scheme, the Council has been part of the Coventry and Warwickshire Business Rates Pool. By pooling, local authorities are able to reduce the amount of the levy due to be paid to Central Government, and retain more income centrally. For 2019/20 the Council Business Rates Retentions figures include approximately £300k as the gain from pooling for this year. Executive agreed in the Autumn that the Council should seek to be part of the Pool for 2020/21. Within the Provisional Finance Settlement, the Government is proposing that the current pools will be able to continue for 2020/21.
- 3.5.4 The Business Rates Retention figures within the MTFS are believed to be reasonably prudent taking into account all the above factors. These figures will continue to be reviewed and members will be informed of changes as the MTFS is presented in future reports.

3.6 Council Tax

- 3.6.1 As announced within the Provisional Local Government Finance Settlement, District Councils may increase their share of the Council Tax by the greater of up to 2% and £5 without triggering a referendum. This is below the limits for 2019/20 where district councils could increase their element of council tax by the higher of 3% and £5. If the Council were able to increase council tax in future years by 3%, this would amount to a further £95k council tax income by 2024/25.
- 3.6.2 The national average council tax for district councils is £189, and £230 including parish/town council precepts. This Council's council Tax charge for 2019/20 is £166.86 (excluding parish and town council precepts). This Council's charge is in the 2nd lowest quartile (66/192) and when Town and Parish Precepts are included it falls within the lowest quartile (31/192).
- 3.6.3 The Council Tax Base was calculated in November of last year, with the Council's preceptors being notified accordingly. As reported to members in December 2019 within the Base Budget Report, the Tax Base for 2020/21 is 55,851.37 Band D Equivalents. This is a reduction of over 800 properties to the figures previously factored into the Financial Strategy for 2020/21. The reduced forecast growth in the tax base has been factored into the MTFS. This clearly impacts upon the Council's estimated council tax income.
- 3.6.4 An increase in Council Tax of £5 per annum per Band D is proposed to fund the Council's core services, in line with the limits discussed in paragraph 3.6.1.
- 3.6.5 In view of the Climate Emergency declared by the Council in June 2019, resources are required to finance the Climate Emergency Action Plan, as detailed in a separate report on this Executive agenda. It is proposed to increase Council Tax by a further £1 per week at Band D, £52 per annum which will enable approximately £2.9m to be allocated to a new Climate Emergency Reserve in 2020/21, and similar sums in subsequent years.
- 3.6.6 The Council's element of the Council Tax is calculated by taking its total budget requirement, subtracting the Council's element of Retained Business Rates (Section 3.3 and 3.5 above). This figure is divided by the 2020/21 tax base to derive the District Council Band D Council Tax Charge.
- 3.6.7 The recommendations within this report produce a Band D Council Tax for Warwick District (excluding parish/town council precepts) for 2020/21 of £223.86, this being a £57 increase on that of 2019/20. Based on this increase the District's element of the Council Tax for each of the respective bands will be:

	£
Band A	149.24
Band B	174.11
Band C	198.99
Band D	223.86
Band E	273.61
Band F	323.35
Band G	373.10
Band H	447.72

- 3.6.8 The £57 increase in council tax will generate an additional £280,000 in 2020/21 towards the cost of core services and £2.904m to the Climate Emergency Reserve.
- 3.6.9 The Medium Term Financial Strategy includes increases in council tax of £5 per annum in future years. This increase will go towards maintaining core services, with the £52 additional charge continuing to provide funding for Climate Emergency initiatives. It is important that the Council continues to maintain this income base into future years. Costs will continue to face inflationary increases. In addition, there remain threats to the Council's other income streams, most notably its share of Business Rate Retention.
- 3.6.10 Parish and town councils throughout the district were asked to submit their precepts for 2020/21 when informed of their Tax Bases. At the time of writing this report, not all precepts have been confirmed. It is estimated that the precepts will total just over £1,500,000 based on prior years. In the Provisional Finance Settlement, the Government has announced it will continue to defer the setting of referendum principles for town and parish councils. As in previous years, the government has indicated it will keep this approach under review for future years.
- 3.6.11 If this increase is agreed of £57 at Band D for the District Council's element is agreed by Council on 26 February, as this increase in Council Tax will be classed as excessive, it will be necessary for the Council to hold a referendum and obtain a "yes" vote before being able to maintain the increase for future years.
- 3.6.12 An authority proposing to set an excessive council tax level is also required to make substitute calculations which will take effect if the proposed amount of council tax is rejected in a referendum, these are attached to this report.
- 3.6.13 The Council Tax is set by aggregating the council tax levels calculated by the major precepting authorities (the County Council and the Police and Crime Commissioner) and the parish/town councils for their purposes with those for this Council. The report to the Council Meeting on the 26 February, 2020 will provide all the required details. This will be e-mailed to all Members as soon as possible following the Police and Crime Commissioner and Warwickshire County Council meetings. At the time of writing this report, it is assumed that all the Town/Parish Precepts will have been returned. The Council will then be in a position to: -
- (a) consider the recommendations from the Executive as to the Council Tax for district purposes; and
 - (b) formally to set the amount of the council tax for each Parish/Town, and within those areas for each tax band, under Section 30 of the 1992 Local Government Finance Act.
- 3.6.14 Members must bear in mind their fiduciary duty to the Council Taxpayers of Warwick District Council. Members have a duty to seek to ensure that the Council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision that no reasonable authority could come to, balancing the nature, quality and level of services that they consider should be provided, against the costs of providing such services.

3.6.15 Should Members wish to propose additions or reductions to the budget, on which no information is given in this report, they must present sufficient information on the justification for and consequences of their proposals to enable the Executive (or the Council) to arrive at a reasonable decision. This report sets out relevant considerations for Members to consider during their deliberations, including the statement at Appendix 1 from the Chief Financial Officer

3.6.16 Section 106 of the Local Government Finance Act 1992, states that any member who has not paid their Council Tax or any instalment for at least two months after it becomes due and which remains unpaid at the time of the meeting, must declare that at the meeting and not vote on any matter relating to setting the budget or making of the Council Tax and related calculations.

3.7 New Homes Bonus

3.7.1 This Council's New Homes Bonus (NHB) for 2020/21 is £3.7m. This is an increase from the £3.4m awarded for 2019/20.

3.7.2 The NHB calculations are still based on the following parameters: -

- Since 2018/19 funding is based on 4 years (this previously being 6 years).
- The baseline of 0.4% has continued for 2020/21. New Homes Bonus is only awarded on growth above this level. For Warwick District Council, for 2020/21 the 0.4% baseline represents 257 dwellings. With the total growth of 824 Band D properties, the 2020/21 allocation is based on 567 properties.

3.7.3 Within in the Provisional Funding Settlement, the Government said that "legacy payments" for 2020/21 will not continue, but prior legacy payments will continue for 2021/22 and 2022/23. If this is unchanged, the Council would expect to receive NHB of £2.2m in 2021/22 and £1.2m in 2022/23. However, with the changes expected to local Government Finance in 2021/22, it is possible that these legacy payments will not continue.

3.7.4 To date this Council has used the money to fund various schemes and initiatives and replenish some of its Reserves, and unlike many local authorities, has not used NHB to support core services. It continues to be the Council's policy to exclude new Homes Bonus in projecting future funding.

3.7.4 As in previous years, Waterloo Housing will receive part of this allocation from their agreement with the Council to deliver affordable Housing in the District. £125,800 is due to be paid to Waterloo in 2020/21. Section 3.13 details how it is proposed to allocate the Residual Balance for 2019/20.

3.8 Medium Term Financial Strategy (MTFS)

3.8.1 When Members approved the 2019/20 Budget in February 2019, the Medium Term Financial Strategy showed that that the Council would be in deficit by £574,000 by 2023/24, as shown below.

	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000
Deficit-Savings Req(+)/Surplus(-) future years	330	1,025	456	574
Change on previous year	330	695	-569	118

Since then, Members have received later projections in the quarterly Budget Review Reports in August and November of this year. These Reports highlighted any major changes.

- 3.8.2 One of the most significant changes between the forecasts presented to Members in February of each year is always the impact of rolling the forecasts forward a further year. Whilst there is additional income from an increased Taxbase and the Band D charge, alongside the growth in the Leisure Concessions Contract, this is more than offset by inflation and other unavoidable commitments such as pensions.
- 3.8.3 There have been many changes to staffing budgets during the year which have already been reported to Members. The most significant of these being the Housing Restructure (£55,700), and increased use of casual employees due to activity in the arts services (£40,000). Other salary budget changes incurred total (£154,700).
- 3.8.4 Income to the Council will increase less than that forecast in February 2019. The most notable reasons for this is the reduction in growth in the Tax Base from 2019/20 (£70,000). In addition, the increase in planning fees of £250,000 included in the strategy last year have been removed from 2019/20, but is still within the Budget for 2020/21 onwards.
- 3.8.5 The following savings have been re-profiled or removed to reflect more likely timeframes: -
- Insurance premium savings from the new contract have increased by a further £41,000 in 2019/20, being a recurring saving of £34,800 from 2020/21.
 - Senior Management Review removal of saving (£200,000) originally forecast to start April 2022
 - Town Hall transfer removal of saving (£85,000) saving previously forecast to start April 2022
 - Riverside House Relocation removed (£300,000) saving previously forecast to start January 2021
- 3.8.6 As reported to members in August 2019, if the Kenilworth Leisure development works go ahead, this will present a significant additional net revenue cost to the Council, estimated at £500k per annum (subject to significant capital contributions from the Council's current capital resources). This mostly reflects the additional debt charges that will be incurred on the borrowing to fund the works. A further report is due to the Executive later in the Summer/Autumn. At this time more detailed costs of the project should be known. Members will then be asked if they wish to commit to the project. By factoring the additional £500k into the Medium Term Financial Strategy from 2021/22, the level of savings to be found on a recurring basis have increased by this level, as included in the table below.

3.8.7 Taking into account the above changes, the savings to be found within the Medium Term Financial Strategy are as follows: -

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Deficit-Savings Req(+)/Surplus(-) future years	1,600	987	1,922	1,868	1,762
Change on previous year		-633	935	-54	-106

3.8.8 In the short term it is proposed to use the Business Rate Retention Volatility Reserve (BRRVR) to help smooth the savings needed to be secured. The BRRVR currently is forecast to have an unallocated balance of £4.1m as at 31 March 2025. It is proposed to fund the forecast surplus/deficit on the General Fund for 2019/20 to 2022/23, leaving £522k to be found in 2022/23, from the BRRVR. This will require £3.145m to be released from the BRRVR so reducing the forecast balance to £957k as at March 2025. The impact of the extra contributions from the reserve are shown below.

Business Rate Retention Volatility Reserve								
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	
	£000	£000						
B/F	889	4,535	6,973	7,199	5,618	4,808	4,402	
Budgeted contribution to/from reserv	3,646	2,438	226	-1,581	-809	-406	-300	
C/F	4,535	6,973	7,199	5,618	4,808	4,402	4,102	
Extra contributions from reserve			202	-938	-987	-1,422		
Forecast Balance								957

3.8.9 By utilising the BRRVR to fund the General Fund deficit in the short term, the forecast adjusted deficit is as follows: -

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Deficit-Savings Req(+)/Surplus(-) future years	0	0	522	1,868	1,762
Change on previous year		0	522	1,346	-106

3.8.10 New initiatives need to be agreed soon to enable savings or additional income to be generated so as to remove the forecast £1.8m deficit. By using the BRRVR, the Council has effectively bought itself some time to get new initiatives in place but it now needs to develop strategies for balancing its budget over the medium to long term to create a sustainable platform to deliver services. Like many other Councils, WDC is beginning to look at the potential returns from investments in property and other developments in its boundary and wider economic geography, which will provide wider economic benefits to the district. It is also considering how to increase the returns from investment in its

Treasury Management strategy, within the parameters of prudence, regulations and guidance from CIPFA.

Proposals are now being developed in both areas and will be discussed in the coming year for incorporation into the budget as appropriate from 2021/22 onwards. The timetable for these considerations to be reported to members are: -

- March 2020 - Treasury Management Strategy - annual update and consideration of revised investment proposals.
- April 2020 – Commercial Investment Strategy – proposals for a new strategy.
- September 2020 – report on further service transformation initiatives.

3.8.11 In this context it is worth stressing that it is not proposed to fund the current projections in relation to the shortfall in the General Fund Budget and the Medium Term Financial Strategy from the additional council tax income from the £52 proposed increase. All additional income from this source will be ring-fenced to fund Climate Emergency initiatives.

3.8.12 If the referendum on the excessive council tax increase is unsuccessful, the balance to be found from the General Fund budget for future years will not alter. However, the Council will need to identify different priorities/ allocations from its budget to enable it to pursue its Climate Emergency initiatives.

3.9 Reserves and Balances

3.9.1 Members agreed that £1.5m should be the minimum level for the core General Fund Balance. This balance supports the Council for future unforeseen demands upon its resources. In order to consider a reasonable level of general reserves, a risk assessment has been done and is contained at Appendix 4. This shows the requirement for the General Fund balance of over £1.5 million against the risks identified above.

3.9.2 The General Fund has many specific Earmarked Reserves. These are attached at Appendix 5 showing the actual and projected balances from April 2018, along with the purposes for which each reserve is held. Finance and Audit Scrutiny Committee is especially asked to scrutinise this element and pass comment to Executive.

3.9.3 Those reserves which show a significant change in the overall balance in the period 1st April 2020 to 31st March 2024 are detailed below and also shown in Appendix 5: -

- i. Business Rates Volatility Reserve – This reserve smooths out the receipt of business rates income and contributions to the reserve. The use of this reserve is discussed in paragraph 3.8.8, does reduce the forecast balance on this reserve to £957k. This balance should not be allowed to go below this level, and should ideally be at a level of £2.5m. With the changes to Business Rates from 2021/22, it is expected that the current Coventry and Warwickshire Business Rates Pool will need to be disbanded. This should release £1m of “Safety Net” funding currently being held by the pool to the Council in 2021/22 to help support the balance on this reserve. Until the balance on this reserve is increased to its nominal level it will not be possible to make further contributions from this reserve.

- ii. Car Parking Repairs and Maintenance Reserve – the balance on the reserve is expected to be fully utilised by March 2021 due to the continued funding of replacement pay & display ticket machines, and essential maintenance.
- iii. Community Projects Reserve – this reserve is fully committed.
- iv. Corporate Asset Reserve – As discussed in the paragraph on PPM (3.15) This reserve is forecast to have around £400k by the end of 2020/21. Further funding will be required for future years to maintain assets in future years in line with the Asset Strategy.
- v. ICT Replacement Reserve – this reserve will receive annual contributions of £250,000, amounting to £1m over the period 2019/20 to 2023/24. The latest forecast for the replacement of the Council's ICT Equipment is attached at Appendix 6 for Members approval. If all the items on the schedule are to be funded, further funding will be required for future years.
- vi. Equipment Renewal Reserve – this reserve has been forecast to receive allocations of £100k per annum. Some drawdowns from this reserve have not been needed as soon as profiled. Consequently, within the proposed budget no allocations into the reserve have been allowed for 2020/21 and 2022/23. However, Members are asked to note the significant potential demands on this Reserve in future years, if all of these items are drawn down to this value, the Reserve will be exhausted. The schedule is regularly reviewed to assess whether demands are still required, or whether they can be slipped within the programme.
- vii. Homelessness Prevention Reserve – Government grants amounting to £529k will be received in 2018/19 and 2019/20 and allocations of £278k are expected to be made from the reserve in the same years resulting in a net increase of £274k over the period 2018/19 to 2022/23.
- viii. Leisure Options Reserve – This reserve is proposed to receive £740k from New Homes Bonus. If the Kenilworth Leisure scheme is approved to go ahead, this budget is to fund the costs incurred during the development.
- ix. Planning Investment Reserve – income amounting to £1.4m arising from increased planning fees will be credited to the reserve over period 2019/20 to 2023/24 and this will be offset by the reserve funding various posts e.g. temporary Senior EHO, Development Monitoring Officer and Community Infrastructure Levy (CIL) officer. Allocations from this reserve are agreed by the Senior Management Team.
- x. Public Amenity Reserve – £140k is proposed to be allocated from New Homes Bonus to fund the next green spaces and play areas projects identified from the parks and play area audits in line with Green Space Strategy. Further funding will be required for future years.
- xi. Public Open Spaces Planning Gain Reserve – this reserve is built up of S106 contributions received in previous years and is dedicated to one-off improvements of public open spaces including play areas. It is providing £370k towards the 2019/20 play area capital programme after which it will be mostly exhausted.
- xii. Service Transformation Reserve – £707.3k is proposed to be allocated from New Homes Bonus. In addition, the unallocated balance on the Grants In Advance Account, which is made up of various grants received in recent years,

being available for any purpose of £459,000, is proposed to be transferred to the Service Transformation Reserve.

- xiii. Digital By Default Reserve - £86.3k is proposed to be used towards the ICT restructure.
- xiv. Warwick District Climate Emergency Reserve – a new reserve is proposed to be created from 2020/21 with the proceeds of the £52 council tax increase. In the first year this should generate £2.9m, with similar amounts in subsequent years. The proposed initial use of this reserve are considered in paragraph 3.13.4. Further use of this reserve are proposed to be delegated to the Executive.

3.10 General Fund and Housing Capital Programmes

3.10.1 In accordance with the Council’s Code of Financial Practice, all new and future capital schemes, must be in line with the Council’s corporate priorities including its capital strategy and a full business case will be required as part of reports to the Executive for approval. This case will identify the means of funding and, where appropriate, an options appraisal exercise will be carried out. Should there be any additional revenue costs arising from the project, the proposed means of financing such must also be included in the Report and Business Plan.

3.10.2 The Capital Programme has been updated throughout the year as new and changes to projects have been approved. In addition to the changes throughout the year, it is proposed to add several new schemes to the Capital Programme as detailed in Appendix 8. These most notable schemes are detailed below: -

Scheme	Year	Amount	Financed From
Kenilworth HIF Grant	2019/20	£9.6m	REFCUS
Power Supply to Car Park	2019/20	£97.8k	Corporate Asset Reserve
Station Approach land purchase	2019/20	£200k	Capital Investment Reserve
Crematorium	2019/20-2023/24	£110.4k	Equipment Renewal Reserve
CFS Aeroproducts Relocation to Warwick	2019/20 – 2021/22	£440k	Borrowing
Bowling Greens (Commonwealth Games)	2019/20 – 2020/21	£200k	Commonwealth Games Reserve
2 nd Warwick Sea Scouts HQ	2019/20 - 2020/21	£439.2k	2020/21 New Homes Bonus £350k
Masters House	2019/20 - 2020/21	£1m	2020/21 New Homes £500k
Local Football facilities	2019/20 - 2020/21	£150k	Community Projects Reserve
Community Stadium Project	2019/20 – 2022/23	£176.9k	Borrowing
AV System in Council Chamber	2020/21	£80k	Equipment Renewal Reserve
Health and Community Protection IT System	2020/21	£300k	2020/21 New Homes Bonus
Financial Management	2020/21	£600k	2020/21 New

Scheme	Year	Amount	Financed From
System			Homes Bonus
Cycleway Upgrade (Commonwealth Games)	2020/21	£50k	Commonwealth Games Reserve
Europa Way Heathcote Farm	2020/21	£996.8k	Borrowing
Kenilworth School Loan	2020/21	£2m	Internal Borrowing
Desktop Infrastructure, Network Devices LAN & WAN, Infrastructure General, Network General	2023/24	£257k	ICT Replacement Reserve
Rural & Urban Initiatives Grants – extension of current programme	2023/24	£150k	Capital Investment Reserve
Recycling & Refuse Containers – extension of current programme	2023/24	£80k	Capital Investment Reserve

3.10.3 In addition to the new projects incorporated in 3.10.2 above the following capital projects are expected to come forward over the next few years: -

- Investment in replacement multi storey car parks
- Office relocation
- Europa Way Community Stadium

3.10.4 Slippage to 2020/21 in the General Fund Programme has been incorporated as reported during the year.

3.10.5 In addition the following table shows increases to current schemes that are required to be reported to Members. The full details are within Appendix 8:

Scheme	Year	Amount	Comments
Desktop Infrastructure	2020/21	£60k	Increase met from ICT Reserve
Network	2020/21–2021/22	£60k	Increase met from ICT Reserve
Whitnash Community Hub	2019/20	£415.2k	Increase met from Community Projects Reserve
Leisure Centre Refurbishments	2019/20-2020/21	£543.5k	Increase met from Any Purpose RTB receipts
Community Stadium Project	2019/20 to 2022/23	£12.6k	Funded from internal borrowing
St Marys Lands – Main Entrance Improvements	2019/20	£29.4k	Increase met from Community Projects Reserve
Project Officer Whitnash / Kenilworth Phase 2	2019/20-2022/23	£142.1k	Increase from Service Transformation Reserve
Tachbrook Country Park	2021/22	£2.1m	Increase from s106

3.10.6 Slippage and savings on existing schemes are also detailed within Appendix 8

3.10.7 Appendix 9 Part 5 shows the General Fund unallocated capital resources. These total £1.686m. The Capital Investment Reserve represents the largest share of this at £1.233m, for which the Council has agreed the minimum balance should be £1m. Whilst the Council does hold other reserves to fund capital projects, it will be noted that these are limited and have been reserved for specific purposes. In addition to the resources shown here, within the Housing Investment Resources, the Right to Buy "Any Purposes Capital Receipts" projected at £8.202m (Appendix 9, part 4) are available to fund non Housing schemes.

3.10.8 The latest Housing Investment Programme (HIP) is shown at Appendix 9 part 2.

3.10.9 Appendix 8 details variations to the HIP from the programme approved as part of the February 2019 budget report. This includes new schemes approved during 2019/20, changes to current schemes, and slippage from 2018/19.

3.10.10 Appendix 9 part 4 shows the funding of the HIP and the forecast balances at year end until 31st March 2024 after the HIP has been financed.

The Capital receipts primarily relate to Right to Buy (RTB) sales. The council has freedom on how the any purpose receipts are utilised, being able to fund General Fund and Housing Capital schemes.

3.10.11 RTB 1-4-1 receipts have to be utilised in replacing housing stock that has been purchased from the council by existing tenants through the RTB scheme. This can be through new build properties (such as Sayer Court), the purchase of existing properties (such as Cloister Way) or buy back of existing council properties previously sold through RTB. However, they can only be used to fund up to 30% of the replacement cost as per RTB regulations. If the funding is not used within a three-year period from the date of receipt, the funding will be repayable to the Government, along with interest. It is envisaged that there will be no requirement to repay any 1-4-1 receipts to the Government as they will be utilised to finance current or potential schemes within the Housing Investment Programme. Within the current Housing Investment Programme there are schemes for the acquisition of properties as agreed by members. This will fully utilise the 1-4-1 funding that the Council currently holds and will receive in 2019/20, with it projected to have a zero 1-4-1 balance as at 31 March 2020. The projections show a further £1.4m per annum will be available thereafter for further schemes, with this funding having to be used within the 3 year timescale. Where schemes have been designated to be funded using additional borrowing, 1-4-1 receipts generated will be used in the first instance to reduce the amount of borrowing required.

3.10.12 HRA Capital Investment Reserve. This reserve is funded by the surpluses generated on the Housing Revenue Account. The HRA Business Plan assumes that this funding will be used for the provision of new HRA stock, and to allow debt repayments on the £136.2m loan taken out to purchase the HRA housing stock to commence from 2052/53.

3.10.13 The Major Repairs Reserve is used to fund capital repairs of the HRA stock. The contributions to this reserve are based on depreciation calculations.

3.10.14 Section 106 are payments received from developers in lieu of them providing new on site affordable homes, enabling the Council to increase the HRA stock or assisting housing associations to provide new dwellings. These S106 payments usually have a time limit attached to them by which time they

need to be utilised or they may need to be repaid to the developers.

3.10.15 The Right to Buy Any Purpose Capital Receipts are shown within the sources of Housing Investment Programme funding. As considered previously by members, these capital receipts are not ring-fenced and can be used for any capital projects.

3.11 Prudential Indicators

3.11.1 The Council is required to determine an Authorised Limit for borrowing in accordance with The Local Government Act 2004, Section 3, and to agree prudential indicators in accordance with the CIPFA Code for Capital Finance in Local Authorities.

3.11.2 The Prudential and Treasury Indicators are being included in the Treasury Management Strategy report going to Executive on 18 March 2020, to be approved by Council before the start of the financial year 2020/21, as required by the CIPFA Prudential Code.

3.12 Capital Strategy

3.12.1 The Council approved a Capital Strategy for the financial year 2019/20, as required by CIPFA revised Prudential and Treasury Management Codes.

3.12.2 The initial capital strategy requires updating, to reflect the Asset Management Strategy approved in November 2019 and a new Commercial Property Investment Strategy that is planned to be brought to Council early in 2020/21. It also needs to reflect the Council's aspirations as part of the Climate Emergency Declaration.

3.12.3 Therefore it is planned to revise the Capital Strategy during 2020/21, to fully reflect these other underpinning corporate strategies and objectives.

3.13 Appropriation of funding and balances

3.13.1 2019/20 revenue Budget shows a surplus of £202,000 with 2020/21 showing a deficit of (£1.6m). As discussed in paragraphs 3.2.2 and 3.3.5, it is proposed to use the Business Retention Rate Volatility Reserve to smooth the shortfall within the Medium Term Financial Strategy for 2020/21 and 2021/22, leaving £522k shortfall to be found in 2022/23. With the current year surplus being allocated to the Volatility Reserve, the net amount being drawn from the Reserve is £3.459m.

3.13.2 New Homes Bonus remains the major source of additional funding over which the Council has discretion as to how it is used, as discussed in section 3.7.

3.13.3 It is proposed to use the New Homes Bonus as follows: -

New Homes Bonus – 2020/21 Allocation	£
Waterloo Housing Association – Joint Venture commitment	125,800
Commonwealth Games Reserve – agreed annual allocations per Executive March 2018.	150,000
Sea Scout's Headquarters – agreed Executive	350,000

August 2019	
Masters House – agreed Executive Oct 2019	500,000
Public Amenity Reserve - allocations needed to fund works on Council open spaces and play areas in 2020/21. Further funding required for future years.	140,000
Leisure Options Reserve - Kenilworth Leisure interim development costs, to be considered further in future Executive report.	740,000
Financial Management System – agreed December 2019 Executive.	600,000
H&CP System – Agreed Oct 2019 Executive	300,000
General Fund Early Retirements Reserve – additional funding required for potential demands in 2020/21	15,000
Project Legal Costs – additional funding required for several agreed projects in progress	98,000
Service Transformation Reserve	707,300
Total Allocated	3,726,100

3.13.4 The additional income to be generated from the £52 increase in Council Tax for Climate Emergency will be allocated to the new Climate Emergency Reserve. For 2020/21 this should generate £2.904m income. The immediate items to be funded from this reserve will be: -

	£000
Cost of holding the referendum over the Excessive Council Tax increase	300
Climate Emergency Director – cost of first of three years, as agreed by Employment Committee.	105
Food waste collection implementation and setup	533

The balance on this reserve will be used towards items included within the Climate Emergency Action Plan. The reserve should receive similar allocations from council tax income in future years.

3.14 Business rates – Retail Discount Relief

3.14.1 The Ministry of Housing, Communities and Local Government has been in communication following the General Election regarding changes to Business Rates from 1st April 2020. The Government is looking to:

- increase retail discount relief to 50% for all occupied retail properties with a rateable value below £51,000, whilst extending its coverage to include cinemas and music venues.

and

- reintroduce pub relief.

3.14.2 These changes are expected to be formally announced in the Chancellor's Budget on March 11th 2020. Based on the current Committee meeting dates, this will not enable any changes to be formally agreed and incorporated into the 2020/21 Business Rate Bills to be issued in March 2020.

3.14.3 It is recommended that the Section 151 Officer, in consultation with the Finance Portfolio Holder, is duly authorised to approve any business rate relief changes agreed by the Government to be incorporated into the 2020/21 Business Rate Billing.

3.15 Pre-Planned Maintenance Budget (PPM)

3.15.1 The proposed PPM budget will enable the Council to proactively maintain all existing corporate assets (i.e. all assets owned by the Council other than its Housing Revenue Account homes, shops, garages and land) in a sound condition unless or until any future decisions are made in respect of individual assets through a Corporate Asset Management Strategy.

3.15.2 The proposed budget allocation for 2020/21 is based on a review of the current PPM data by officers within the Assets Team, in consultation with building managers from other services which hold or operate specific assets. The Proposed Corporate Property & Planned Preventative Maintenance (PPM) Programme works 2020/21 is set out at Appendix 10 to this report.

3.15.3 For 2020/21, the total PPM budget is £1,071,700. This will be funded using £413,000 from the Annual PPM budget and a £658,700 drawdown from the Corporate Assets Reserve or which the balance is currently £1,087,500. Further detail of the PPM Plan and the associated funding is provided within Appendix 10.

4. Policy Framework

4.1 Fit for the Future (FFF)

These are the words to use:

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. This report seeks to continue to ensure that the Council has adequate financial resources to support its various strategies and the provision of services.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	Services	Money
External		
Health, Homes, Communities	Green, Clean, Safe	Infrastructure, Enterprise, Employment
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/productivity of local economy Increased employment

	ASB	and income levels
Impacts of Proposal		
The recommendations within the report seek to help provide future funding for the above outcomes.		
Internal		
Effective Staff	Maintain or Improve Services	Firm Financial Footing over the Longer Term
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
Impacts of Proposal		
The recommendations within this report seek to ensure the Council has adequate funding to enable it to support staff in the provision of services.	The recommendations within the report seek to help provide future funding so as to enable the Council to maintain and improve service provision.	The recommendations within this report seek to ensure the best use of made of the Council's financial resources whilst ensuring the Council's financial position is sound going into the future.

4.2 Supporting Strategies

- 4.2.1 Each strand of the FFF Strategy has several supporting strategies and the relevant ones for this proposal are explained here. The Council has a Financial Strategy, as updated within Appendix 11. This Strategy sets out details of the Council's overall financial position, and some of the key policies for the use of the Council's resources and how these are managed. Members are recommended to approve the updated Financial Strategy.

4.3 Changes to Existing Policies

This report does not propose any recommendations to any of the Council's existing policies.

4.4 Impact Assessments – Not Applicable

5. Budgetary Framework

- 5.1 The Council's budget and Council tax setting is a major component in reflecting and expressing the Council's priorities and policies. The budgets proposed for both capital and revenue are in accordance with Fit for the Future. The financial strategy and capital strategy are revised in the light of the proposed revenue and capital budgets, and the issues that these budgets address.

- 5.2 Officers monitor the current year's expenditure by way of the Budget Review process which is reported to the Council's Senior Management Team monthly. The same process is applied when reporting quarterly to Members. Members are also kept informed on progress with Earmarked Reserves and the Contingency Budget, alongside the latest predictions in the MTFS.
- 5.3 Despite facing substantial reductions in funding in recent years, the Council has managed to maintain and improve main services, while also supporting new projects and initiatives, in particular proposals surrounding Climate Emergency, and our involvement in the Commonwealth Games. However, members will be aware of the substantial sums needed to be spent on the Council's municipal assets in future years, with the multi storey car parks and the roof at both the Town Hall and Pump Rooms being of specific note. In addition, moving forward, there remains uncertainty as to the Council's future funding levels. This is notably with regard to Business Rates (as discussed in paragraph 3.5) and New Homes Bonus (para 3.7). Consequently, the additional funds required by the Council in forthcoming years could foreseeably be in excess of the shortfall forecast in the MTFS (section 3.8.9).
- 5.4 The proposals within this report include for an excessive council tax increase of £57 at Band D, this being £52 above the referendum limits. This will require a local referendum to agree the increase. The cost of this is estimated at £300k, which it is proposed to fund from the additional proceeds from the council tax increase. If the increase is rejected by the referendum, it will be necessary for the cost of the referendum and subsequent council tax re-billing, estimated at £500k in total, to be funded from the 2020/21 New Homes Bonus. This will require subsequent amendments to the funding from New Homes Bonus as discussed in the Substitute Calculations Report (Appendix A).

6. Risks

6.1 Council Tax Referendum

6.1.1 By the Council setting an Excessive council tax increase for 2020/21, there is a risk that the increase is rejected in the local referendum.

6.1.2 There has only been one excessive increase set under the current legislation. Bedfordshire Police and Crime Commissioner set an increase of 15.8% (£24.80) for 2015/16, above the 2% referendum limit to fund additional police officers. The Commissioner had previously undertaken public consultation which suggested 84% supported the increase in a paper survey, and 64% in an on-line survey. In the referendum in May 2015, 70% voted against the increase. Consequently, the increase failed, and new council tax bill had to be issued to all properties in Bedfordshire, as a cost to the Police and Crime Commissioner.

6.1.3 If the Council supports the increase and it fails at the local referendum which would be held on 7 May, the Council will face the following risks: -

6.1.4 Costs

In addition to the cost of the referendum (estimated cost £300k), the Council will face the cost of re-billing for council tax. This will incur expenditure on the following items: -

- Software updates to the council tax system
- Printing/posting of council tax bills
- Recalculation of Council Tax Reduction, and sending notification
- Cost of issuing refunds

- Additional staff costs to answer telephones, billing, recovery etc.
- Staff overtime

6.1.5 Impact upon service

- The Council Tax service is likely to be impacted for potentially months. Whilst the Council may be able to set substitute council tax relatively quickly, it could be some months before new bills can be sent out.
- With the delay in new bills being sent, this is likely to impact the service in several ways. This will result in increased correspondence and telephone contacts from council tax payers. If the correspondence levels do increase, it may be some time before processing times return to an acceptable level. Additional staff are likely to be sought to help manage this.
- The delays in the new bills being issued will result in problems with council tax recovery.

6.1.6 Other risks likely include: -

- Reputational damage. As only one referendum of this nature has taken place, and that was voted against, many will question the wisdom of the Council agreeing an excessive council tax increase. The council is likely to be subject to substantial local and national scrutiny.
- Impact on staff morale. The substantial proportion of the Council's workforce are likely to be impacted, whether it be assisting with the referendum, or council tax recovery.
- Potential adverse reports from the external auditors (potentially part of the Value for Money Conclusion).

6.2 Business Rates Retention

As detailed in section 3.5, there are still substantial risks around Business Rates Retention, especially from 2021/22 when the following changes are expected: -

- The impact of the Fair Funding Review
- The introduction of the 75% Business Rate Retention scheme
- The re-set of the Baselines.

6.3 The Financial Strategy now assumes that £5 per annum increases in Council Tax for future years on the basis of current referendum limits. Recent Government determination confirmed that increases in Council tax are to be limited to the greater of either a £5, or 2% increase, a change from the £5, or 3% that was in place as part of last year's strategy. There is the possibility that this could change further, therefore there is a degree of risk as to whether this level of Council Tax increase will be able to be continued.

6.4 Many of the Risks in the Significant Business Risk Register are Finance related and the Finance Service Area has its own Risk Register. Both are reviewed regularly.

6.5 The impact of the country leaving the European Union on the Council and the local economy is uncertain. It could be some years before the full impact is felt.

- 6.6 The MTFS still has a substantial deficit still to be closed. As discussed in paragraph 3.8.10, new initiatives are needed to be agreed soon so that they can be implemented and generate additional savings. Failure to come up with new proposals will leave the Council in a very vulnerable position.
- 6.7 Unforeseen events, such as planning appeals, uninsured damage, legal challenges, can expose the Council to incur expenditure not previously budgeted for. Whilst the Council endeavours to cover these from its Contingency Budgets and Reserves, they may not prove adequate.
- 6.8 New Homes Bonus. As referred to in paragraph 3.7.3, the Government has suggested within the 2020/21 Provisional Finance Settlement that NHB legacy payments will continue in 2021/22 and 2022/23. There is also the expectation that a new scheme to replace NHB will be introduced from 2021/22. Consequently, there are risks as to what funding the Council receive here which could present problems for some of future years' NHB already committed.
- 6.9 Changes in legislation may influence assumptions built into Budgets and the 5 year Strategy as well as increasing the costs of implementing these changes.
- 6.10 As previously reported to members, and included within Section 3.9, Reserves and Balances, the financial projections do not allow for adequate funding to enable the Council to maintain its assets in the meantime. The Corporate Assets Reserve, ICT Reserve and the Equipment Renewals Reserve are all forecast to have more demands from them in forthcoming years than they can accommodate. Consequently, in addition to the savings referred to in Section 3.8.5 (Medium Term Financial Strategy), the Council needs to secure funding to enable these reserves to be replenished, and so maintain current service provision.
- 6.11 Many controls and mitigations are in place to help manage these risks. These include: -
- The comprehensive Budget Review process. This entails all budget managers reviewing their budgets on at least a monthly basis, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process, regular Budget Review reports are issued to the Executive and Senior Management Team.
 - Financial Planning with the MTFS/financial projections, bringing together all issues that will impact on the Council's finances in the medium term.
 - Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).
 - Project Management and associated controls.
 - Trained staff and access to appropriate professional advice (e.g. WCC Legal).
 - Risk Management process across the Council, including the on-going review and maintenance of risk registers.
 - Scrutiny by members of the Council's finances, including Budget Reports, and the financial implications of all proposals.

- Within the proposed 2020/21 Budget there is a Contingency Budget of £200,000 for any unplanned unavoidable expenditure.
- Reserves – The Council holds reserves as discussed within section 3.9. Whilst much of these reserves have already been earmarked for specific projects, it is important that reserves are held for any unforeseen demands. The use of the Business Rate Retention Volatility Reserve as discussed in 3.8.8, does reduce the forecast balance on this reserve to just under £1m. This balance should not be allowed to go below this level.
- The General Fund Balance is £1.5m as discussed in paragraph 3.10.1. This is available to accommodate any unplanned expenditure, or to make up any shortfall in income. However, the Council should seek to maintain the balance at this level.
- The specific causes of reductions to income or increased expenditure should continue to be managed by the relevant Service Area as part of managing the risks within each Service Risk Register. Each Service Area's Risk Register is presented to Finance and Audit Scrutiny Committee annually on a rolling basis for scrutiny.

7. Alternative Option(s) considered

- 7.1 The Council does not have an alternative to setting a Budget for the forthcoming year. Members could however decide to amend the way in which the budget is broken down or not to revise the current year's Budget. However, the proposed latest 2019/20 and 2020/21 budgets are based upon the most up to date information. Any changes to the proposed budgets will need to be fully considered to ensure all implications (financial or otherwise) are addressed.
- 7.2 The required "Substitute Calculations" required to be in place if the referendum for the £57 council tax increase is not agreed by those voting is set out as an additional paper to accompany this report (Appendix A).