

DEVELOPING THE BUDGET

Report to Budget Scrutiny 28 January 2020

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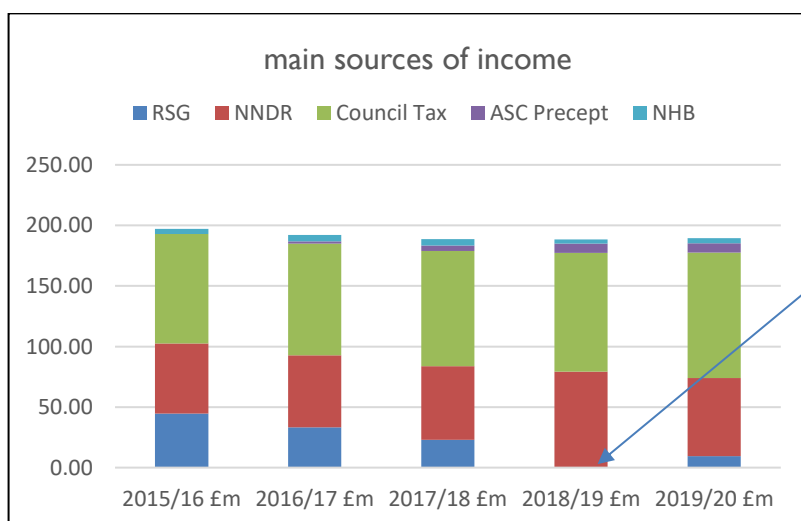
INTRODUCTION

The purpose of this paper is to set out how the resource element of the budget is calculated discussing resources available both general and ring-fenced grants.

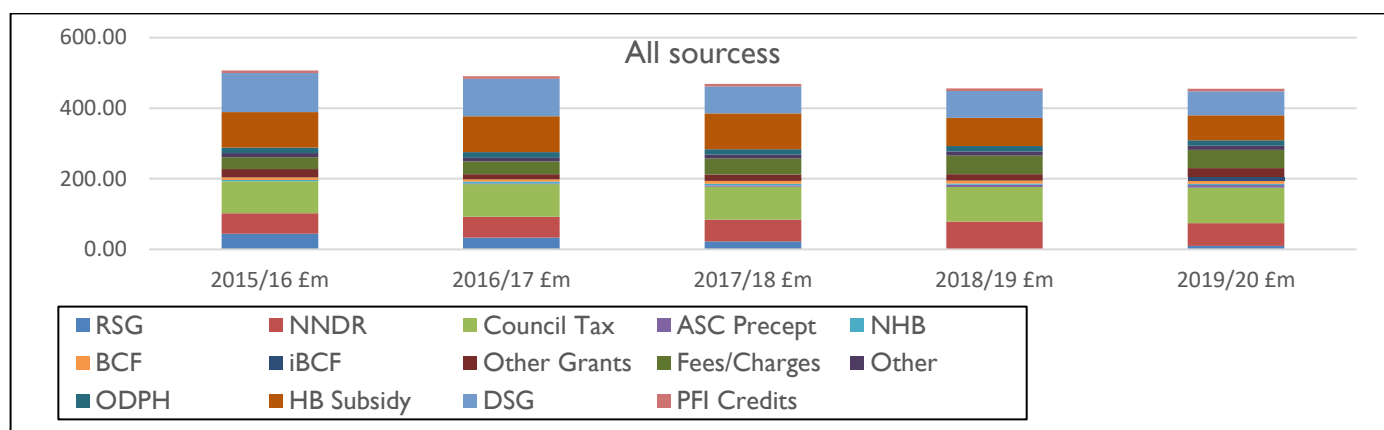
INCOME

Whilst the Council operates to a net budget of £185m (2019/20) the Council does receive income from a variety of sources to fund services. The table below summarises by source the major income streams:

	2015/16	2016/17	2017/18	2018/19	2019/20
Gross Budgeted Income:	£m	£m	£m	£m	£m
RSG	44.55	33.21	23.06	0.00	9.53
NNDR	58.05	59.41	60.82	79.28	64.39
Council Tax	90.41	92.24	94.91	98.03	103.70
ASC Precept	0.00	1.85	4.71	7.74	7.74
NHB	4.20	5.50	5.10	3.49	4.03
BCF	6.40	6.40	8.01	7.66	7.66
iBCF	0.00	0.00	0.00	0.00	10.95
Other Grants	23.81	14.51	18.36	18.36	25.24
Fees/Charges	34.18	36.13	45.00	52.46	51.88
Other	11.80	10.49	10.63	12.09	12.13
ODPH	14.85	16.13	15.74	15.33	14.93
HB Subsidy	101.14	101.14	101.14	80.18	70.59
DSG	110.75	106.45	76.47	75.88	68.31
PFI Credits	7.22	7.38	7.38	7.38	7.38
Total	507.34	490.82	471.32	457.87	458.45



The increase in RSG reflects the impact of the Business Rate pilot. RSG was subsumed into the Business rate distribution. Council tax (including ASC precept) in 2019/20 now accounts for 59% (46% in 2015/16) of the main income, RSG 5% (23%) and business rates 36% (30%). Council tax (including ASC precept) in 2019/20 now accounts for 59% (46% in 2015/16) of the main income, RSG 5% (23%) and business rates 36% (30%).



Council tax

Each property in the city is assigned one of eight bands (A to H), based on property value, and the tax is set as a fixed amount for each band. The more valuable the property, the higher the tax. Council tax bands are calculated using the value of the property as it would have been at a certain point in time.

The council tax base of a local authority consists of the number of band D equivalent dwellings in the area. Exemptions and discounts are taken into account and the number of properties in each band is reduced to reflect these. The council tax base is calculated by multiplying the reduced number of properties in each band by its ratio to band H and adding these products together to arrive at the total number of band D equivalents. (E.g., a band H property is equivalent to two band D properties, a band A dwelling is equivalent to two thirds of a band D dwelling and so on for each band.) The resulting figure is adjusted to reflect the collection rate. The table below sets out the council tax base for 2019/20 and 2020/21 together with a forecast for the next two years. The base for 2020/21 is 74,603 and increase of 1,431

Council Tax Base	
2019/20	73,172
2020/21	74,603
2021/22	75,254
2022/23	75,999

The tax base is multiplied by the tax rate to give the total income to be collected from Council tax to fund services.

Business Rates

Business rates in England or **non-domestic rates** is a tax on the occupation of non-domestic property (**National Non-Domestic Rates (NNDR)**). Rates are a property tax with ancient roots that was formerly used to fund local services that was formalised with the Poor Law 1572 and superseded by the Poor Law of 1601. The Local Government Finance Act 1988 introduced business rates in England and Wales from 1990, repealing its immediate predecessor, the General Rate Act 1967.

The Local Government Finance Act 1988, with follow-up legislation, provided a fresh administrative framework for assessing and billing, but did not redefine the legal unit of property, the hereditament, that had been developed through rating case law.

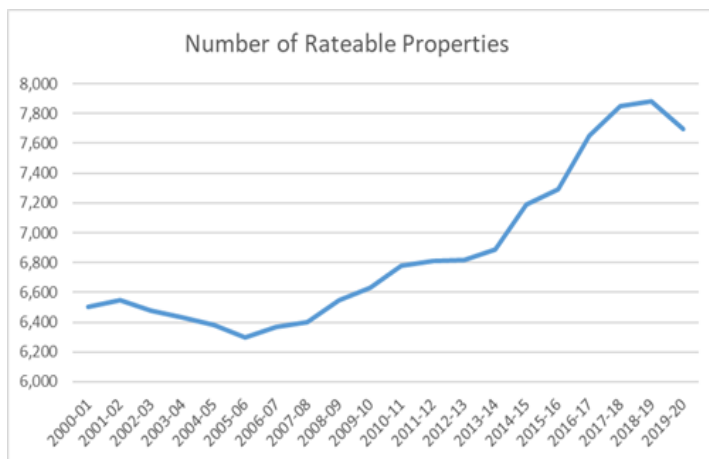
Properties are assessed in a rating list with a rateable value, a valuation of their annual rental value on a fixed valuation date using assumptions fixed by statute. Rating lists are created and maintained by

the Valuation Office Agency, a UK government executive agency. Rating lists can be altered either to reflect changes in properties, or as valuations are appealed against.

On 1 April 2013 a new system of business rates retention began in England. Before April 2013 all business rate income collected by councils formed a single, national pot, which was then distributed by government in the form of formula grant. Through the Local Government Finance Act 2012, and regulations that followed, the government gave local authorities the power to keep up to half of business rate income and transfer half of it centrally, to central government. The central share is then distributed to councils in the form of revenue support grants. The other half kept by local authorities are then subjected to tariff, levy, top-up and safety payments depending on the financial position of the council. According to the government the change gives financial incentives to councils to grow their local economies and increase their income from business rates.

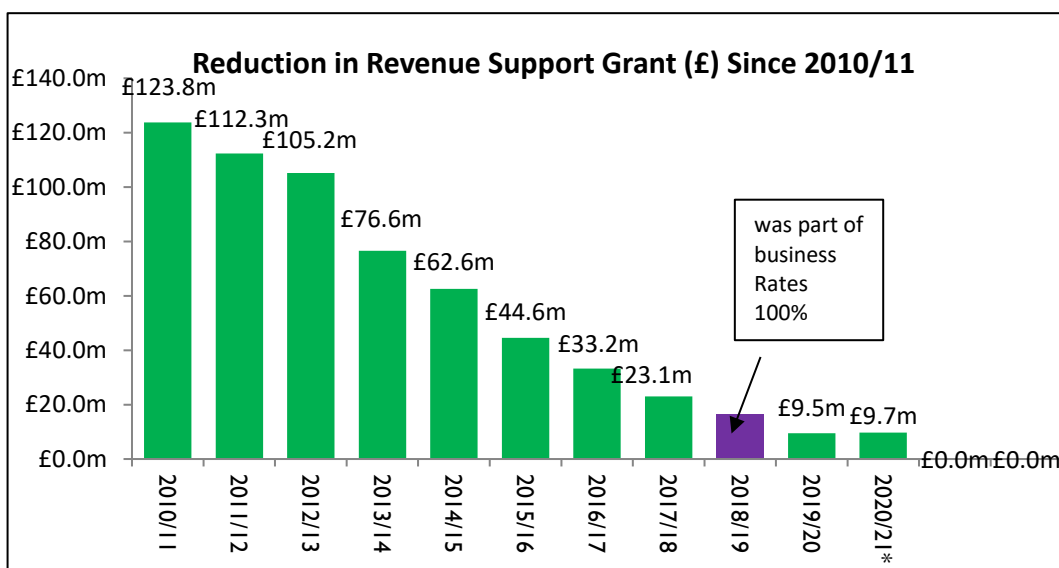
Plymouth City is part of a Devon-wide Business Rates pool. For 2018/19 this became part of a “100% Business Rates” pilot scheme which has not continued in 2019/20. Due to forecast growth across Devon the Council estimated an additional £1m of business rate income which was built into the 18/19 budget. In 2019/20 the MTFP reverted to the 4 year settlement figures.

The table below shows the growth of properties subject to business rates since 2001 in Plymouth.



Revenue Support Grant (RSG)

It is now been confirmed in the spending review announcement on 4 Sept 19 that the Fair Funding review will not take place in time for the 2020/21 budget, therefore the 2019/20 RSG settlement has been rolled forward.



Revenue Support Grant is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the local government finance settlement. In 2018/19 Plymouth was part of a Devon wide county business rates 100% retention pool. Therefore the RSG (£16.3m) scheduled as part of the 4 year settlement to be received in 2018/19 was substituted by the retained business rates.

As part of the Fair funding review it is assumed that RSG will cease in 2019/20 but the indicative amount for 2020/21 based on an extrapolation of previous reductions will be replaced by business rates under the new fairer funding regime assuming fiscal neutrality.

New Homes Bonus (NHB)

The New Homes Bonus (NHB) was introduced in 2011 by the coalition government to encourage local authorities to grant planning permission for new houses in return for additional revenue. Under the scheme, grant funding is provided annually by central government matching the extra council tax raised by new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.

The grant is unringfenced meaning it can be applied to any service.

In 2015, the government launched a consultation on options for changes to better reflect local authorities' provision of new housing, suggesting that it "...is appropriate to consider how the incentive element of the Bonus could be further tightened alongside possible changes to respond to the move towards full retention of business rates and the potential for further devolution of powers and responsibilities to local authorities."

A consultation in 2016 sought views on ways to better reflect authorities' delivery of new housing and reduce the number of years in which payments are made.

At the end of 2016, the government confirmed:

- A move to 5-year payments in 2017/18 and then to 4 years from 2018/19.
- The introduction of a national baseline of 0.4% housing growth below which grants will not be made

As far as 2020/21 is concerned:

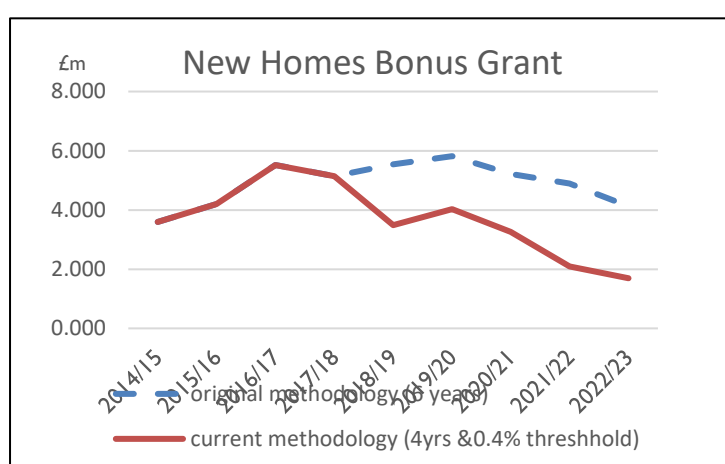
- NHB baseline was retained at 0.4% for 2019/20. Should the government change the threshold, an increase of 0.1% to the threshold (taking it to 0.5%) would reduce or income by about £160k.
- 2019/20 was the final year of NHB as we know it. The government have given no indication as to future plans.
- NHB from 2020/21 likely to remain unchanged but future years likely to change to incentivise more growth, Housing Delivery Test – "*consult widely on any changes before implementation*"
- Due to the growth generated within the City, Plymouth has increased its NHB to £4.026m and this is built into next year's budget. The Council increased its base stock by 840 in the year to October 2019 which compares to 1293 for the previous year. The table below shows the revenue generated from new homes bonus since its inception and includes forecasts for the period of the MTFP.

The chart below forecasts NHB until March 2023

New Homes Bonus	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Year 1	832	832	832	832	832	832						
Year 2		706	706	706	706	706						
Year 3			868	868	868	868	868					
Year 4				1,189	1,189	1,189	1,189					
Year 5					602	602	602	602				
Year 6						1,319	1,319	1,319	1,319			
Year 7							1,168	1,168	1,168	1,168		
Year 8								398	398	398	398	
Year 9									1,141	1,141	1,141	1,141
Year 10										552	552	552
Year 11												
Year 12												
New Homes Bonus	£832	£1,538	£2,406	£3,595	£4,197	£5,516	£5,146	£3,487	£4,026	£3,259	£2,091	£1,693
Cumulative Payments	£832	£2,370	£4,776	£8,371	£12,568	£18,084	£23,230	£26,717	£30,743	£34,002	£36,093	£37,786
Year on Year Movement		£706	£868	£1,189	£602	£1,319	(£370)	(£1,659)	£539	(£767)	(£1,168)	(£398)

Assumptions:

NHB will continue to be paid during the remaining period as per the forecast above.



The government changed the basis of the allocation of NHB in 2016/17 based on payment being made over 6 years to 4 over years. In addition a threshold was introduced to the extent that the council only receives NHB once the growth threshold of 0.4% has been attained. The broken line on the chart (left) illustrates the NHB that would have been received if the changes had not been introduced. A loss of just under £2m per year.

RINGFENCED GRANTS

Public Health Grant

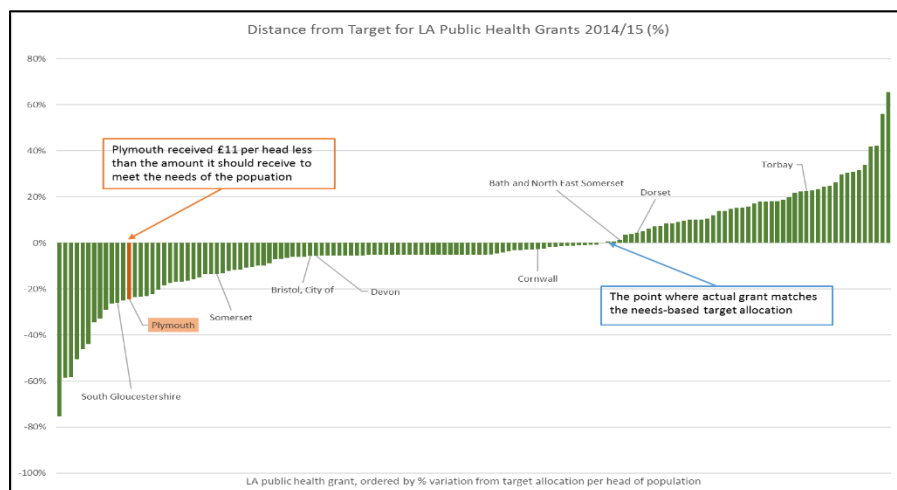
Public health in a local authority works to improve the health of the population, and in particular to tackle large differences in health that we see between local areas.

In April 2013, public health functions were transferred from the NHS to LAs. These included;

- sexual health treatment, testing, contraception and advice
- substance misuse services
- NHS Healthchecks
- smoking cessation and other health improvement activities
- oversight of health protection (vaccinations, screening, responding to emergencies)
- Provision of evidence and expertise to local clinical commissioning groups

The amount of funding available should be closely related to the needs of the population. ACRA (Advisory Committee for Resource Allocation) provides advice to the government on how health spending should be distributed to support 'equal opportunity of access for equal need' and reduce avoidable health inequalities. This formula is based on factors such as the numbers of the population of different ages, and the outcomes in health and factors that influence that (such as deprivation).

At the point of transfer in 2013, the funding received by each LA primarily reflected historical NHS spend. This meant that some LAs received more than their target allocation under the ACRA formula and others received funding under target; Plymouth was considerably under target by around 24%.



ACRA have developed a new formula for Public Health. Though this has not been adopted or published in a simple format, this shows that Plymouth is receiving 21.9% below the recommended level based on the population need.

The table below sets out the changes in funding for Public Health since 2013/14.

Year	PH Grant (£m)	Comment
2013/14	11.160	Original funding
2014/15	12.276	Increase, moving closer to target
2015/16	14.851	Frozen; in year cut of £920k 6 months HV and school nursing
2016/17	16.133	Now incl 12 months 0-5 PH (920k plus a further cut of 2.3%)
2017/18	15.735	Further cut of 2.4%
2018/19	15.330	Further cut of 2.6%
2019/20	14.925	Further cut of 2.6%
2020/21	15.432	Forecast increase of 3.4%

It is widely understood that there will be new responsibilities to be covered under the public health grant. This is likely (but not yet confirmed) to include;

- agenda for change uplift for staff delivering commissioned services; previously this was paid for centrally
- Pre-exposure prophylaxis for HIV, which is currently commissioned by NHS England under 'specialised commissioning.'

The likely costs are not known locally; however nationally, these new responsibilities cost more than the overall public health grant increases.

Better Care Fund

The Better Care Fund (BCF) is a programme spanning both the NHS and local government which seeks to join-up health and care services, so that people can manage their own health and wellbeing, and live independently in their communities for as long as possible. The BCF was created to improve the lives of some of the most vulnerable people in our society, placing them at the centre of their care and support, and providing them integrated health and social care services, resulting in an improved experience and better quality of life.

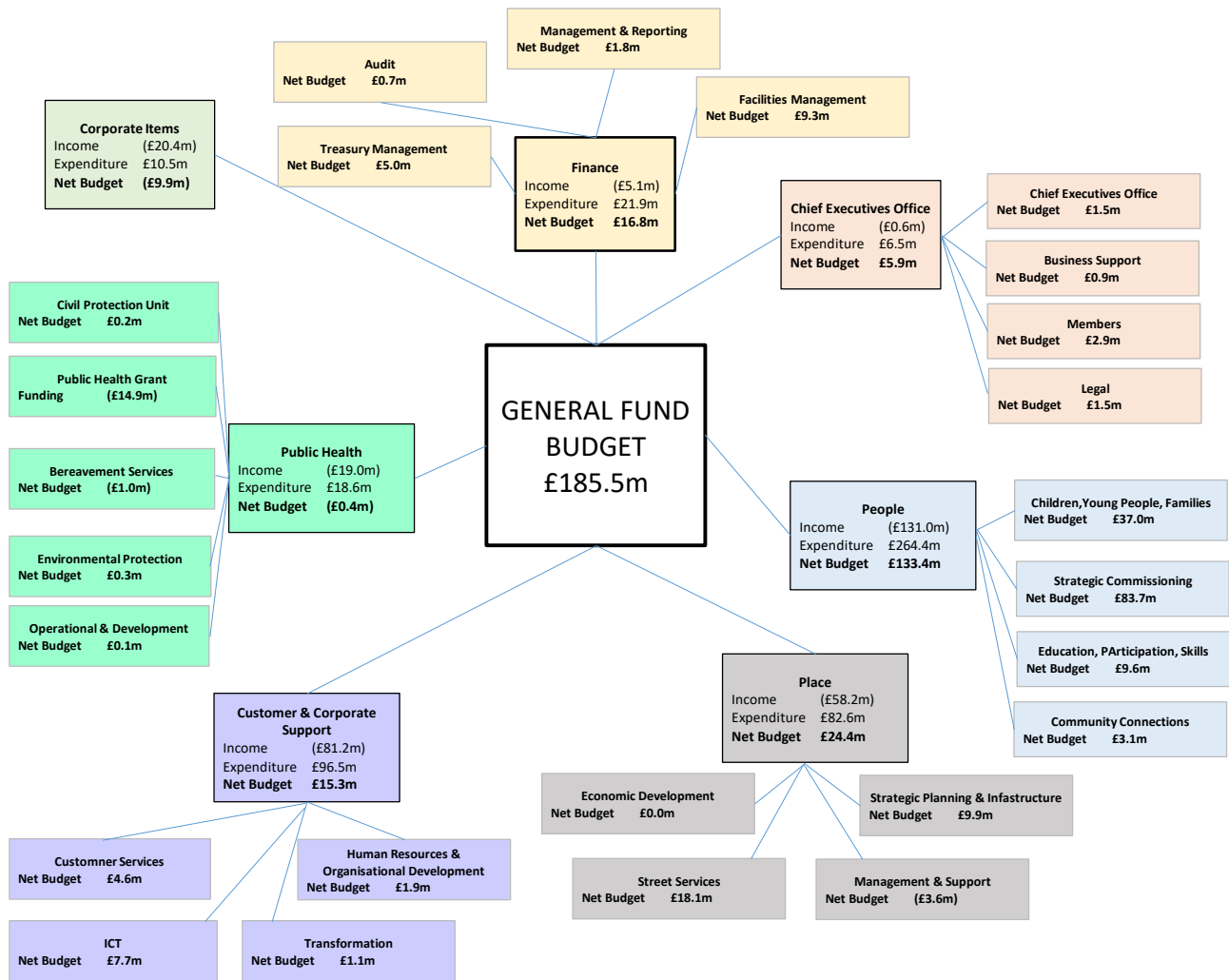
The BCF represents a unique collaboration between NHS England, the Ministry of Housing, Communities and Local Government (MHCLG), Department of Health and Social Care (DHSC) and the Local Government Association. The four partners work closely together to help local areas plan and implement integrated health and social care services across England. The BCF encourages integration by requiring CCGs and local authorities to enter into pooled budgets arrangements and agree an integrated spending plan.

OTHER UNRINGFENCED GRANTS

There are a range of other grants that are received that contribute to the councils overall funding pot. These include for example, grants for homelessness and housing benefit administration.

EXPENDITURE

The sum of the resources outlined above are available to fund the Council's revenue expenditure. The chart below provides a diagrammatic representation of the 2019/20 budget.



The proposals regarding the revenue budget for 2020/21 are included within the Cabinet paper included in the agenda pack.