

PLYMOUTH CITY COUNCIL

Subject: Draft Budget 2019/20
Committee: Cabinet
Date: 15 January 2019
Cabinet Member: Cllr Lowry: Cabinet Member for Finance
CMT Member: Andrew Hardingham – Service Director for Finance
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Ref:
Key Decision: Yes
Part: I

Purpose of the report:

Under the Council's Constitution, Cabinet is required to recommend the 2019/20 Budget to Council. This report is the next stage in preparing the Budget for the 12 February 2019 Cabinet, to consider what recommendations to make to Council in respect of the Budget for 2019/20.

The Corporate Plan 2016/19:

The 2019/20 Draft Budget sets out the resources available to deliver the Corporate Plan.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land:

The resource implications are set out in the body of the report.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

The 2019/20 Draft Budget provides the maximum resources achievable to address key policy areas for the Council.

Equality and Diversity:

A full equalities impact assessment will form part of the final budget papers.

Recommendations and Reasons for recommended action:

I. That Cabinet notes the budget development for 2019/20.

Alternative options considered and rejected:

There are no alternative options.

Published work / information:

Background papers:

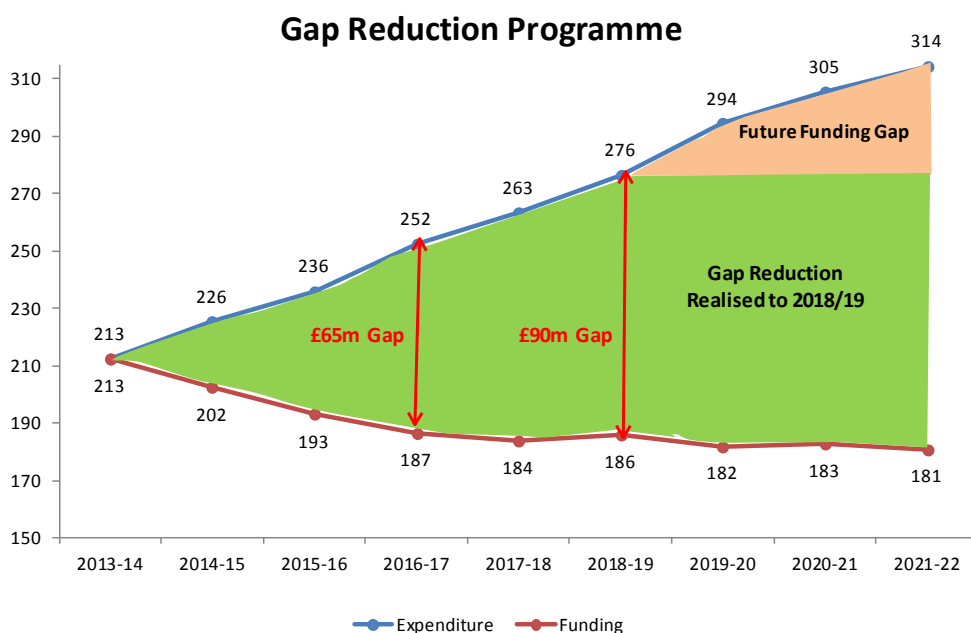
Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7

Sign off:

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Originating SMT Member												
Has the Cabinet Member(s) agreed the content of the report?												

1.0 Introduction

1.1 The Medium Term Financial Strategy was recommended by Cabinet on the 13 November 2018 and subsequently approved by Council on the 19 November 2018. The Strategy addresses the funding gap as of that date, (with particular focus on 2019/20) for the following three financial years. However, as 2019/20 is the last year of a four year Settlement future years resource assumptions are only estimates at this stage. The Medium Term Financial Strategy (MTFS) builds on the significant benefits achieved over recent financial years.



- In 2013 the gap was estimated to be £65m by 2016
- By 2018 the gap has been reduced by £90m
- From 2019 to 2021 the funding gap is £37m
- The future gap has been reduced by £18m so far

Savings and Income Generation Delivery

1.2 The Growth, Assets, Municipal, Enterprise (GAME) programme specifically tracks the Plymouth Growth Dividend made up of New Homes Bonus, new Council tax and Business Rate revenues derived from growth. We will continue to be proactive in securing greater value from our assets and driving projects that deliver growth which brings long term economic and financial benefits for the City.

1.3 These measures include:

- The Plan for Homes which provides a comprehensive delivery framework to respond to need to increase the supply and quality of new housing in the city. The Plan for Homes extends to 2021, with an £80m commitment to housing investment to support the deliver over 1,000 new homes per year – 5,000 homes over the next five years. The plan will deliver 2,453 jobs and generate £102.7m Gross Value Added (GVA) benefits to the Plymouth economy. The plan is on track with 4,461 homes delivered in first 4 years with further 1,108 under construction. The plan is currently in its second iteration with a 3rd version to be developed in early 2019.

- Focusing the delivery of major projects that will have the greatest impact on revenue such as Drake Circus Leisure, Civic Centre, Seaton Neighbourhood, Railway Station, Colin Campbell Court, Bath Street and Millbay;
- Continuing the programme of Direct Development to drive rental income and Business Rates growth across the Land Property portfolio;
- Continuing to drive housing developments on Council land.

1.4 By the end of 2018-19 it is expected that almost £42m will have been generated and captured as the Plymouth Growth Dividend from the preceding 5 years, this is the accumulated value of each annual total. Specifically this is made up of £22m from the New Homes Bonus, £12m from additional Council Tax from new homes and £8m for additional Business Rates. A further cumulative total benefit of £13m is expected for 2019/20. For 2019/20 the targets which are built into the MTFS are £4.026m for New Homes Bonus, £5.086m for new Council Tax and £3.882m for new Business Rates, although this forecast is based on new Business Rates only as revaluations are accounted for separately.

1.5 The Integrated Health and Wellbeing Board (IHWB) programme has contributed £27.7m savings through closer and joined up working with the Clinical Commissioning Group (CCG) and other delivery partners (e.g. Livewell).

1.6 The Transforming the Corporate Centre has also modernised the delivery of services, helping to improve the customer experience through the introduction of digital channels and the merger of transactional activities to the Service Centre. Since inception £7.5m of savings have been delivered through this programme. The creation of Delt has delivered both operational and financial benefits; Delt providing an average 10% return on investment in the first two years of full trading whilst also providing efficiency savings thus enabling the Council to fix base line prices as Delt absorbed inflation pressures.

1.7 Together these programmes with other efficiency and service led changes have contributed to the Council delivering £90m of savings since 2014.

Budget Development

1.8 The 2019/20 Budget is now being developed in greater detail and in accordance with the budget timetable enabling Members to agree a Council Tax rate for 2019/20 in February.

1.9 There are a number of changes to forecast funding and expenditure for 2019/20 and these are discussed in more detail later within the report. The budget gap reported to Council in November 2018 was £1.389m which made an assumption that council tax would be increased by 2%. The total Council Tax increase in the last 2 years was 4.49% in 2017/18 and 4.47% in 2018/19 (£1.16 and £1.21 per week respectively).

1.10 On the basis that any council tax increase proposal will not be formalised until the February Council tax setting meeting, the revised budget gap is £4.778m. The latest position reflects new savings and efficiencies identified to date, new and emerging

pressures, the latest information arising from the Chancellor's Budget Statement and the Provisional Local Government Finance Settlement.

2 Provisional Local Government Finance Settlement 2019/20

2.1 The Provisional Local Government Finance Settlement was announced on 13 December 2018. 2019/20 is the last year of a four year Settlement. Although the Council opted to accept the four year settlement this did not mean the Council accepted that its grant allocation was sufficient and has and will continue to make representations during the settlement consultation phase. At this stage there is uncertainty about future funding levels until the Government make further announcements. This is not expected until the autumn of 2019. This makes medium term financial planning extremely difficult. The Council will continue to press for a better deal for the residents of Plymouth.

Key Headlines from the Settlement

2.2 It is important to distinguish between the announcements made as part of the Provisional Settlement and other announcements. The funding increases announced as part of the **Autumn Budget** for social care, roads and children's services were re-stated as part of the Settlement and not "new" money.

Business Rates Retention.

2.3 The Government confirmed its intention to move to 75% Business Rates Retention (BRR) from 2020. As part of the move to BRR the government invited all local authorities to apply for Pilot status from April 2019 for 75% BRR. Plymouth successfully submitted an application to be a 100% Pilot in the current financial year on behalf of the Devon Pool and applied to continue as a Pilot in 2019/20 under the 75% scheme.

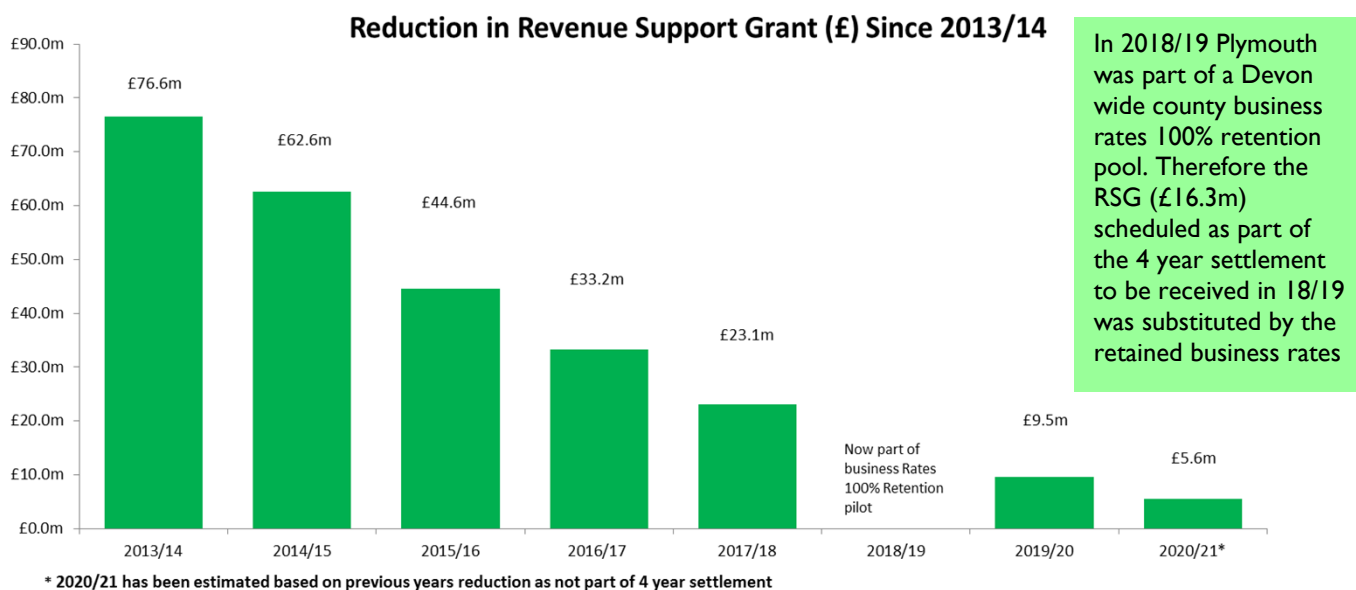
2.4 As part of the Settlement, the government announced 15 new business rate pilots. The pilot authorities are:

- Berkshire;
- Buckinghamshire;
- East Sussex;
- Hertfordshire;
- Lancashire;
- Leicestershire;
- Norfolk;
- Northamptonshire;
- North and West Yorkshire;
- North of the Tyne;
- Solent authorities;
- Somerset;
- Staffordshire and Stoke;
- West Sussex;
- Worcestershire.

- 2.5 Having successfully operated as a Pilot, and as the lead administer, Plymouth and our partner authorities are extremely disappointed our application was not selected. As an existing Pilot it seemed logical that the Devon Pool should continue to be a Pilot for the 75% scheme. However, as the application was unsuccessful the Pool will revert to the existing 50% BRR scheme. The Pilot areas announced in paragraph 2.4 are in addition to the existing devolution pilots and the London Pilots. As a result of not being successful the Devon Pool will not benefit from any additional Pooling gains in 2019/20. For the current year Plymouth budgeted for an additional £1m pooling gain.
- 2.6 The government also announced as part of the Settlement that a surplus of £180m from Business Rates used as a provision to support any authorities that may fall into the Safety Net, would be redistributed to all authorities based on need which is something Plymouth support. Plymouth's allocation is £0.881m.

Revenue Support Grant

- 2.7 The MTFs made no assumptions that Plymouth would continue to be a BRR Pilot. As this has been confirmed there were no changes to the amount of Revenue Support Grant (RSG) Plymouth was allocated in 2019/20. This is £9.5m which is a significant reduction of £6.8m. The graph below illustrates the reduction in RSG suffered by this Council since 2013/14.



Total Reduction in Revenue Support Grant since 2013/14	£14.1m	£32.1m	£43.4m	£53.5m	£60.3m	£67.1m	£71.0m	£341.4m
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Council Tax

- 2.8 There will be no change to the Council Tax Referendum limit for local authorities but there is greater flexibility for the Police precept. Council's can increase council tax up to

2.99% and there has been no changes to the Adult Social Care Precept. Police and Crime Commissioners precepts will be able to be increased to £24 from the current £12.

Negative RSG

- 2.9 As expected, the Government has decided to “directly eliminate” **Negative RSG** in 2019/20 using foregone business rates at a cost of £152.9m. Whilst not against the principle Plymouth argues this should not be funded from within the overall allocation from local government.

The government undertook a consultation on negative RSG in September 2018. As part of the review Plymouth said:

“Negative RSG is a consequence of the government’s decision to change the methodology used for allocating Revenue Support Grant, introduced in 2016-17, which rightly sought to ensure that authorities delivering the same set of services received the same percentage change in funding by taking account of the main resources available to them, rather than focusing only on revenue support grant.

Negative RSG therefore affects only those authorities who have the strongest business rates and council tax bases and therefore have been least dependant on government grant and therefore most insulated from the effects of austerity to date.

Plymouth does not agree with the proposal to use foregone rates taken from the central government share within the overall amount of business rates – amounting to £152.9m. Plymouth recognises this is not a direct reallocation of resources but it is a loss in relative terms in that this money could be reallocated to all local authorities based upon need.

It is recommended that the government look at alternative options which include the allocation of additional funds into the system allocated on relative needs.”

- 2.10 Plymouth are therefore disappointed that the methodology used to eliminate was not allocated on relative needs as set out above.

Social Care Grant

- 2.11 Ahead of the Autumn Budget, the Chancellor announced Local authorities in England would receive a share of a £240 million fund to help local areas ease winter pressures on the NHS. Plymouth’s allocation was £1.284m.
- 2.12 In the Autumn Budget, The Chancellor announced that a further £240m in winter-pressures money will be available to councils in 2019/20. Alongside this, £410m in additional social care funds will be available for local councils for 2019/20. This is to cover both children’s social care and services for working age adults and older people. Local Authorities are able to choose which of these vital budgets to prioritise.

- 2.13 This falls far short of rising pressures and offers little scope to address unmet need or improve quality. This has been highlighted by the Local Government Association's report which identified a £1.3bn funding gap within Social Care. In addition, like all local authorities, we will face continuing pressure to increase the rates we pay for social care.
- 2.14 Plymouth City Council's share of the £410m has been confirmed as £2.190m.
- 2.15 To summarise Plymouth has increased cost pressures within Social Care of £12.599m (table 3) but received additional resources of 6.305m (table 4) leaving a gap of £6.294m.

Other Grants

- 2.16 There are also a number of specific grants that are already included in service budgets which were announced as part of the Provisional Settlement. Grant reductions have to be borne by those services. These include:
- A reduction of £0.405m in the Public Health grant from £15.330m to £14.925m;
 - A reduction of £0.097m in the grant subsidy for housing benefit.

Other

- 2.17 Due to the ongoing reductions of grant funding from government, local authorities have been creative in exploring income generation opportunities. This has included capital investments across the commercial sector through the acquisition of investment properties. This has attracted media attention and concerns by CIPFA's about the scale of borrowing for commercial purposes in some local authorities. The Ministry for Housing, Communities and Local Government and HM Treasury are considering this issue and will determine if any further advice or intervention is required in the future.
- 2.18 The Government will be making some fundamental changes to the system of local government finance from 2020/21. As part of the Settlement the government have released two consultations:
- Fair Funding Review;
 - Reform of business rates retention.
- 2.19 These reforms will review the way methodology for allocating resources to local government and the new proposals with respect to business rates and resetting the baseline for business rates.
- 2.20 Plymouth will be responding to the review. One area of concern is the suggestion from government that they will give population data a greater weighting than deprivation as the basis for allocating grant to local authorities. If this proposal is implemented it will move resources away from Unitary and Metropolitan authorities. Plymouth will be lobbying to ensure deprivation remains a key component of the funding formula to ensure it does not lose revenue resources in future years.

2.21 In summary Plymouth have £13.586m of increased pressure in 2019/20 due to reductions or insufficient increases in government grant funding. These are;

Revenue Support Grant	£6.790m
Public Health Grant	£0.405m
Housing Benefit Grant	£0.097m
Adult and Children's Social Care (Cost increases less additional grant funding)	£6.294m
Total	£13.586m

Resources

3.1 The MTFS set out the resource assumptions for the Council over the next three years. The resources that will support the 2019/20 budget are set out below in table one.

Table 1 – Revenue Resources

	2019/20 Settlement £m	2020/21 Forecast £m	2021/22 Forecast £m
Revenue Support Grant (RSG)	9.533	5.567	0.000
Council Tax	108.228	111.288	114.636
Business Rates	64.391	66.176	66.790
Total Revenue Resources Available	182.152	183.031	181.426

3.2. A number of assumptions have been made as to the value of the Resources for the Council:

- The Council Tax base will be approved by Council in January. The tax base will be 73,095 and after taking into account adjustments for discounts £108.228m of income will be generated. The collection rate for council tax has been set at 98%.
- The MTFS presented to Council assumed a 2% council tax increase for 2019/20. This has been excluded from Table 1 and is subject to a council decision in February.
- The referendum limit for council tax increases has been set at 2.99%. Each 1% increase in council tax will generate £1.1m in income.
- Plymouth has fully utilised its Adult Social Care Precept so this tax raising facility is not available in 2019/20.

- Business Rates: The pilot will not continue in 2019/20 and we will revert back to 50% business rates retention
- Revenue Support Grant: The grant has been confirmed at £9.533m for 2019/20 and is the final year in the 4 year settlement.

New Homes Bonus (NHB)

- 3.3. The Government had said it will review the New Homes Bonus (NHB) scheme and publish a consultation paper with regard to its future operation. Any adverse change will have a significant detrimental impact upon Plymouth as every 0.1% increase in the baseline would result in Plymouth losing at least £0.160m in funding.
- 3.4 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 1,275 in the year to October 2018 which compares to 657 for the previous year. The table below shows the revenue generated from new homes bonus since its inception and includes forecasts for the last 2 years.

Table 2 – New Homes Bonus

New Homes Bonus	2013 / 14	2014 / 15	2015 / 16	2016 / 17	2017 / 18	2018 / 19	2019 / 20	2020 / 21	2021/22
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Year 1	832	832	832	832					
Year 2	706	706	706	706					
Year 3	868	868	868	868	868				
Year 4			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
Year 10								585	585
Year 11									146
New Homes Bonus	2,406	2,406	4,197	5,516	5,146	3,487	4,026	3,292	2,270
Year on Year Movement	0	0	1,791	1,319	-370	-1,659	539	-734	-1,022

4 Growth and Cost Pressures

- 4.1 The MTFS presented to Council identified a number of unavoidable costs pressures which form part of the base budget. The Medium Term Financial Strategy (MTFS) set out these costs and set out the principle that wherever possible services have to absorb the increased cost of service demand and inflation. Table 3 below sets out the increased costs that have been included in the budget for 2019/20.

Table 3 – Increased Cost Pressures

Directorate	Increased costs	2019/20	Total by Directorate
		£m	£m
People	Adult social care – Care packages and volume	3.506	12.599
	Children’s social care – cost and volume	5.700	
	National Living Wage in adult social care contracts	3.393	
Place	Loss of commercial rental income –	0.160	0.531
	Major investments	0.371	
Customer and Corporate Services	Customer experience	0.150	0.450
	ICT re-provisioning	0.300	
Corporate Items	Salary inflation and pay scale changes	2.321	3.815
	Pension actuarial review	0.250	
	EVRS/Redundancy	0.500	
	Revenue costs arising from capital investment decisions	0.450	
	Increase working Balance in line with General Fund	0.294	
	Total	17.395	17.395

5 Budget Savings

- 5.1 Cabinet Portfolio Members and Officers have worked to identify savings proposals to offset these increased budget pressures which are an inevitable consequence of the ongoing reduction to funding for Plymouth. In addition there has been budget movements due to funding changes and permission from Government to utilise capital receipts to fund revenue.
- 5.2 These changes are summarised below in table 4 below.

Table 4 – Summary of Budget Movement and Savings

	2019/20 £m	
Additional Grant income		
- Social Care Support Grant	2.194	
- Better Care Fund Gain	4.111	
		6.305
Flexible Use of Capital Receipts		(2.000)
Government Grant Changes		
- Increase in New Homes Bonus		0.539
Directorate Income and Savings Proposals		11.177
Total		16.021

6 Movement from MTFS to Current Budget

6.1 Table 5 below provides a summary of the budget movement since the MTFS was written in November 2018.

Table 5 New and Emerging Pressures

	2019/20 £m	2020/21 £m	2021/22 £m
	FORECAST		
Budget Gap as at 19 November MTFS	1.389	7.236	11.779
Assumed Council Tax increase In MTFS	2.150	0.076	0.066
A. New and Emerging Pressures			
Children's Budget Pressures	3.894		
Reverse Interest for Commercial Loan	0.250		
Increase Insurance Provision		0.100	
At risk savings 2018/19	0.461		
Total New and Emerging Pressures – assuming zero council tax increase	4.605	0.100	0.000

- 6.2 The most significant new and emerging pressure relates to Children’s Services and reflects the unprecedented demand and increased costs and complexity of Children’s Placements. Plymouth is experiencing a large increase in the number of vulnerable children needing care and this cost pressure reflects the escalating costs for specialist residential care and the cost of care packages.
- 6.3 Following a review of the Council’s Treasury Management position an expected income stream from a commercial loan which was built into the Council’s assumptions has been reversed.
- 6.4 Taking into account these changes the overall budget position is now set out in the table below.

Table 6 Budget Changes

	2019/20	2020/21	2021/22
	£m	£m	£m
	FORECAST		
B. Additional Resources			
Increase in Council Tax Base (from proposed council tax base proposal)	-0.678	-0.609	-0.038
C. New Savings and Efficiencies			
Social Care Grant – (including Winter Pressures Funding)	-1.194	-0.284	
Increase in New Homes Bonus allocation	-0.463		
Levy account surplus allocation (announced as part of the Provisional Settlement)	-0.881	0.881	
Place parking	-0.150		
Total New Savings and Efficiencies	-2.688	0.597	0.000
Budget Gap as at 8 January 2019	4.778	7.400	11.807

6.5 Table 7 shows updated Budget gap.

Table 7 Revised Budget Position

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
	BUDGET	FORECAST		
REVENUE RESOURCES AVAILABLE	185.556	182.152	183.031	181.426
Baseline spend requirement	183.883	185.556	182.152	183.031
Plus identified additional costs	13.207	17.395	11.218	9.380
Overall spend requirement	197.090	202.951	193.370	192.411
Savings	11.534	16.021	2.939	-0.822
REVISED SPENDING FOR YEAR	185.556	186.930	190.431	193.233
Budget Gap 11 January 2018	0.000	4.778	7.400	11.807

7. Conclusion

7.1 The work to finalise the budget for 2019-20 is ongoing and work will continue to ensure the gap is closed and the Council delivers a robust and balance budget.