

**Open Report on behalf of Andrew Crookham,
Executive Director - Resources**

Report to:	Executive
Date:	04 February 2020
Subject:	Council Budget 2020/21
Decision Reference:	I018714
Key decision?	Yes

Summary:

This report asks the Executive to propose to the full Council the Council's budget and council tax in light of the provisional local government settlement and consultation comments on its initial proposals.

The Executive is also asked to consider prudential targets in relation to capital financing and other treasury management matters.

Recommendation(s):

That the Executive:

1. Consider the effect of the updated funding available and revenue expenditure as noted in paragraphs 1.4 and 1.5, APPENDIX A and APPENDIX B of the report;
2. Consider the Equality Impact Analysis at APPENDIX C and the consultation comments as shown in APPENDIX I and presented at the meeting;
3. Subject to recommendation 4 below approve for recommendation to full Council:
 - a) the revenue budget for 2020/21 shown in APPENDIX D of the report;
 - b) the capital programme for 2020/21 shown in Table A and APPENDIX E of the report;
 - c) the levels of council tax proposed in Table B of the report including the increasing of council tax in 2020/21 by 3.50%;
 - d) the prudential indicators for 2020/21 shown in APPENDIX G of the report;

e) the Flexible Use of Capital Receipts Strategy for 2020/21 attached at Appendix H of the report; and

f) the Medium Term Financial Strategy attached at Appendix J to this Report.

4. Request the Leader to review and amend the Executive's budget recommendations to the County Council, as appropriate, in light of the National Living Wage cost pressure outlined in paragraphs 1.14 and 1.15 of the Report, and the final Local Government Finance Settlement and the council tax, and business rates information from the Lincolnshire District Councils if received between the Executive meeting and the County Council on 21 February 2020.

5. Request the Leader to review and amend the figures within the Medium Term Financial Strategy to be recommended to the County Council as appropriate, to ensure consistency with final budget recommendations made to the County Council meeting on 21 February 2020.

Alternatives Considered:

1.	The proposals for the revenue budget, capital programme and council tax as described in this report.
2.	Higher levels of spending and consequently higher levels of council tax in future years.
3.	Lower levels of spending and consequently lower levels of council tax in future years.

Reasons for Recommendation:

- The recommended option is proposed because it results in a balanced budget for 2020/21:
 - the proposed increase in Council Tax of 3.50% allows the Council to manage the cost pressures outlined in the Medium Term Financial Strategy and Council Budget 2020/21 report at Appendix A;
 - savings on service expenditure are proposed to rebalance future spending with the funding which will be available to the Council; and
 - a proposed contribution to the Development Fund earmarked reserve can be budgeted for to help support the delivery of projects designed to improve outcomes for the Council's communities.

1. Background

1.1 The Executive, at its meeting on 7 January 2020, proposed the Council's budget for 2020/21 for consultation. This budget report and appendices are attached for information at **APPENDIX A**. The Local Government Provisional Finance Settlement announcement was received on 20 December after the Executive reports had been issued, so an assessment of this announcement was shared with the Executive and published, with the 7 January budget proposals, on the Council's website after the Executive's meeting. This assessment of the provisional settlement is attached to this report at **APPENDIX B**.

1.2 Further information relating to Council Tax has become available since publication of the above budget proposals. These implications are described below and reflected in the appendices to this report.

Council Tax

Council Tax Base

1.3 District Councils have until 31 January 2020 to confirm their Council Tax Base and surplus/deficit position on the Council Tax element of the Collection Fund. The report to the Executive on 7 January 2020, assumed an increase of 1.5% in the council tax base and a collection fund surplus of £2.670m.

1.4 At the time of preparing this report the County Council has received provisional figures from each one of the seven District Councils. The figures received show an increase in the tax base for these Councils collectively of 1.49%. This is slightly less than the tax base assumption made and will result in reduced Council Tax income of £0.028m per annum at the proposed new council tax levels.

1.5 All of the District Councils have submitted the provisional position on the council tax elements of their Collection Funds. There is a net surplus attributable to the County Council of £3.193m, which is £0.523m higher than the collection fund surplus assumption made. As these are provisional figures, the impacts have not been built into the budget for this report, but an update will be tabled at the Executive meeting on 4 February once figures have been confirmed by all of the Lincolnshire District Councils.

Council Tax Increase

1.6 The Secretary of State in the Provisional Local Government Finance Settlement announced that the referendum threshold for the general element of Council Tax would reduce from 3.00% in 2019/20 to 2.00% for 2020/21. The Provisional Local Government Finance Settlement also confirmed that councils with adult social care responsibilities would be able to charge an Adult Social Care precept of up to 2.00% for 2020/21. This is a continuation of the power to charge such a precept which came into force in 2017/18. The Council's budget proposals include a 2.00% increase in this element of the Council Tax in 2020/21, following a 2.00% increase in each of the years 2017/18, 2018/19 and 2019/20.

1.7 In light of the Provisional Local Government Settlement the Executive is proposing a Council Tax increase of 3.50%. An Impact Analysis has been completed for this increase and is attached at **APPENDIX C**. The equality impacts are addressed further below in part 2 of the report 'Legal Issues'.

Business Rates

1.8 The District Councils have until 31 January to provide business rates returns showing:

- The position on the business rates element of the collection funds; and
- The value of the section 31 compensation grant due to the County Council.

1.9 At the time of preparing this report, the Council had not received notification of provisional collection fund positions from any of the seven District Councils. As with Council Tax, any surplus or deficit from business rates collection will only have a one off effect on the 2020/21 budget. The current working assumption within the budget presented in this report is that there will be neither a surplus nor a deficit for the total business rates collection fund.

1.10 The Government confirmed that it will compensate local authorities in full for the continuation of the business rates cap, small business rates relief and rural rate relief by way of a section 31 grant, as in previous years.

1.11 At the time of preparing this report the Council had not received provisional notification from any of the District Councils in respect of section 31 grants. An assumption has been made that the total of business rates section 31 grants for 2020/21 will be in the region of £6.427m but the actual amount cannot be confirmed until the end of January.

1.12 An update will be tabled at the Executive meeting on 4 February on both of these aspects of business rates funding once returns have been received from all of the Lincolnshire District Councils.

Business Rates Pooling

1.13 The Council has confirmed that it wishes to remain in a business rates pool with the seven Lincolnshire District Councils as was the case in 2019/20. An assumption of pooling gains to the Council of £2.799m has been built into the budget.

National Living Wage

1.14 On 30 December 2019 the Government announced that the National Living Wage would increase by more than that forecast by the Office for Budget Responsibility with effect from April 2020. The National Living Wage for over 25 year olds will now rise to £8.72 per hour, which is an increase of 6.2%. The Office for Budget Responsibility had previously forecast an increase to £8.63 per hour, an increase of 5.1%, and this assumption had been built into the budget. The additional cost pressure arising from this change is estimated at £0.552m and the

Council has asked the Government to provide funding for this late adjustment in its response to the Provisional Local Government Finance Settlement consultation.

1.15 A recommendation of this report is to request the Leader to review and amend the Executive's budget recommendations to the County Council, as appropriate, when final figures have been confirmed in the Final Local Government Finance Settlement, and final confirmations of council tax and business rates amounts have been received from the District Councils. The National Living Wage cost pressure will also be taken into account by these amendments.

Implications of additional Revenue Income

1.15 The changes to Council Tax income set out in paragraphs 1.4 to 1.5 above have increased the Council's income for 2020/21 by a net £0.494m. This figure comprises: £0.028m resulting from the lower than anticipated increase in the Council Taxbase (provisional); £0.523m which is the additional Council Tax Collection Fund surplus above the amount assumed (provisional).

1.16 As this is based on provisional figures, and other amounts are as yet unconfirmed, the budget will be adjusted once all final information has been received.

Capital Programme

1.20 The proposed capital programme is summarised in **TABLE A** below. Full details of the Council's capital programme are set out at **APPENDIX E**.

TABLE A –Capital Programme 2019/20 to 2020/21 (plus future years to 2029/30)

	2019/20 £'000	2020/21 £'000	Future Years £'000
Gross Capital Programme	189,173	223,204	375,907
Funded By:			
Grants and Contributions	87,473	85,281	68,524
Revenue Funding	775	30	1,106
Use of Reserve	6,025	0	0
Borrowing	94,901	137,893	306,277
Funding by LCC	101,700	137,923	307,383
Total Funding	189,173	223,204	375,907

1.21 There have been some changes to the capital programme for 2019/20 onwards since the programme was reported to the Executive on 7 January 2020. Capital budget has been re-phased into future years, which has impacted on the total budget for 2019/20 and 2020/21, and the gross expenditure budget has increased overall by £10.305m. This increase does not impact on the Council's revenue budget as all of is funded by grants or revenue contributions.

Council Tax Rates

1.22 In light of the Provisional Local Government Finance Settlement the Executive is now minded to propose a Council Tax increase of 3.50% (1.50% for general Council Tax, plus a further 2.00% for the adult social care 'precept'). The Secretary of State announced that the Government's proposed referendum thresholds for 2020/21 would reduce from 3.00% to 2.00%, with a number of exceptions, including the ability for authorities with adult care responsibilities to increase Council Tax by up to 2.00% as long as the authority can demonstrate that this additional funding is being allocated to adult care services.

1.23 The recommended increase of 3.50% (1.50%, plus a further 2.00% for the social care 'precept') is shown in **TABLE B** below:

TABLE B – County Council element of the council tax

County Council element of the council tax	2019/20	2020/21
Band D council tax	£1,292.40	£1,337.58
Increase over previous year	4.95%	3.50%

1.24 The effect of this increase on all Council Tax property bands can be found at **APPENDIX F**.

1.25 Under section 52ZB of the Local Government Finance Act 1992, the Council as a major precepting authority must, in setting its precept, determine whether its relevant basic amount of council tax for the financial year under consideration is excessive. That question must be determined by the Council in accordance with any principles determined by the Secretary of State and approved by a resolution of the House of Commons. Whilst those principles have not been approved at the date of preparing this report, notification has been given that for 2020/21 the principles will provide for a 2.00% increase in council tax for expenditure on adult social care and a 1.50% increase in council tax for other expenditure. Applying those principles the Executive can determine that the recommended council tax increase is not excessive.

Prudential Indicators

1.26 The Council is required to agree targets for specified prudential indicators in relation to capital financing and other treasury management matters. The Council also sets its own targets in addition to the statutory ones. The main purpose of these targets is to ensure that the Council's capital financing, in particular its long term borrowing, is prudent, affordable and sustainable. The proposed targets are set out in **APPENDIX G**.

1.27 One of the Council's voluntary Prudential Indicators, is that the repayment of external debt including interest will be less than 10% of annual income from general government grants, Dedicated Schools Grant and council tax. This is projected to increase to 6.6% by 2021/22 from 5.0% in 2019/20.

Final Local Government Finance Settlement

1.28 The government grant allocations assumed in the budget proposals are those announced in the Provisional Local Government Finance Settlement. These allocations may be altered in the Final Settlement, although major changes are not expected. At the time of preparing this report, the date of the Final Settlement is not known but expected to be in early February. An update will be tabled at the Executive meeting on 4 February if there are any amendments required arising from the final Local Government Finance Settlement.

Flexible Use of Capital Receipts

1.29 The Council has approved the strategy of using Capital Receipts flexibly to fund Revenue transformation projects since 2016/17, in line with the Government's amended policy. This flexibility is due to end in March 2022 but it is proposed that from 2020/21 Capital Receipts will only be used to repay loans or fund new Capital expenditure. Transformation projects will instead be funded by using existing revenue budgets or earmarked reserves.

1.30 The statutory guidance relating to the flexible use of capital receipts requires councils to approve annually a Flexible Use of Capital Receipts Strategy. The proposed strategy for 2020/21 is set out in Appendix H and confirms that the Council has not identified any transformation projects in 2020/21 to be funded using this flexibility.

Budget Consultation

1.31 Consultation comments made so far on the budget proposals and the ways in which these are reflected in the final proposals, are detailed in **APPENDIX I**. The Executive must consider these comments in arriving at its recommendations in relation to the final budget.

1.32 At the time of writing this report, a number of consultation events were still to be held. Therefore, an expanded **APPENDIX I** to this report will be tabled and presented to the Executive at the meeting on 4 February to allow any comments from these events, and any other comments received, to be considered with those already made.

Local Government Funding Reform

1.33 The Government's Fair Funding and Business Rates Retention reforms were due to be implemented on 1 April 2020, but both have now been deferred with an expected implementation date of 1 April 2021. To achieve this timescale it is assumed that further detail on each of the proposed reforms will be published and consulted upon over the summer, that the Spending Review will be completed

over the same period, and that indicative figures will be made available to authorities by the autumn. This will support budget planning for 2021/22 and beyond.

The Medium Term Financial Strategy

1.34 The Council's Financial Strategy forms part of the Policy Framework and is due for review. It is opportune to review the Strategy alongside the budget setting process so that the budget can be aligned with the strategic financial objectives of the Council.

1.35 At its meeting on 7 January 2020 the Executive received a draft of the Medium Term Financial Strategy and it was reported that this would be kept under review during the course of consultation and in the light of updated information. This review has taken place and it is not considered necessary to propose any changes. Therefore the proposed final Financial Strategy, referred to as the Medium Term Financial Strategy (MTFS), is as attached to this report as Appendix J, and covers the next three years (2020/21 to 2022/23). It provides an update on the current financial context for the Council. The purpose of this strategy is to set out how we intend to manage the financial resources available to deliver our priorities for our communities. The MTFS will be refreshed annually to take account of changing circumstances affecting our finances.

1.36 The MTFS contains six sections, which broadly cover the topics set out below:

- i. Introduction – this references the Council's new Corporate Plan and the continued uncertainty over future funding;
- ii. Objectives – this section sets out the ten objectives which the MTFS is aiming to fulfil;
- iii. Current financial context – provides a brief summary of recent funding challenges and the current economic climate;
- iv. Forward view – this is a high level summary of how we believe our budget will look over the next three years; the budget process this year; and a summary of our proposed budgets for 2020/21 for both Revenue and Capital;
- v. Delivery – this section covers how we intend to deliver the MTFS and monitor our financial performance;
- vi. Key considerations – includes some information about each of the significant funding streams as well as governance, risk and opportunities.

1.37 The MTFS attached at Appendix J has been used to guide the development of the proposed budget for 2020/21.

2. Legal Issues:

Equality Act 2010

Under section 149 of the Equality Act 2010, the Council must, in the exercise of its functions, have due regard to the need to:

- * Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act.
- * Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
- * Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; and sexual orientation.

Having due regard to the need to advance equality of opportunity involves having due regard, in particular, to the need to:

- * Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic.
- * Take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it.
- * Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to tackle prejudice, and promote understanding.

Compliance with the duties in section 149 may involve treating some persons more favourably than others.

The duty cannot be delegated and must be discharged by the decision-maker. To discharge the statutory duty the decision-maker must analyse all the relevant material with the specific statutory obligations in mind. If a risk of adverse impact is identified consideration must be given to measures to avoid that impact as part of the decision making process.

These equality considerations do not preclude changes in services being made, but do require that these be fully appreciated. It is clear that the current and future financial challenges facing local authorities and the need for budget savings in the medium term will result in changes to service provision and may result in some reduction in Council services. These will apply to services accessed by all people in Lincolnshire as well as services provided to specific groups. It is possible that there may be an adverse impact on some people and communities including those with a protected characteristic.

In order to meet its obligations equality impact analyses will be carried out in relation to any proposed changes to services on an individual basis. The specific impacts on people with a protected characteristic will be investigated and the potential mitigation if any will be made clear, so that the implications of decisions are fully understood as they affect specific groups and communities. These have been and will continue to be, regularly reported to the Executive as part of the decision making processes.

In the meantime consideration has been given as to whether there is any element of the current budget proposals that should be the subject of an equality impact analysis at this stage and as a result an assessment (attached at **APPENDIX C**) has been carried out on the proposal to increase Council Tax. That assessment identifies the potential for the proposal to impact on people with low income and therefore disproportionately on certain people with a protected characteristics including older and younger people, people with a disability and women with children. Overall, however, the increase is modest and each District Council operates a Council Tax Support Scheme which has been designed following consultation and individual impact analyses to mitigate the effects of Council Tax levels on vulnerable people and people with low incomes. 2.00% of the increase is specifically to fund adult social care services that support people with protected characteristics such as age or disability. The savings of £14.842m built into this budget are all considered to have minimal impacts on service users but, as stated above, equality impact analyses will be carried out in relation to any proposed changes to services on an individual basis.

Approval of the budget is not a final decision about what the Council's services will be or about how much money will be saved under any particular proposals. Individual proposals will only be implemented after due regard to the legal matters that must be considered including the public sector equality duty.

As part of its decision-making the Executive will need to consider whether any alternative approaches could alleviate or at least mitigate the impact of the decision such as making reductions in other areas which do not have the same impacts, including particularly equality impacts. The result could be to require additional resources to be used in certain areas than has been budgeted for. In this event the usual budget management processes such as virement would be followed and approval sought at the appropriate levels in accordance with Financial Regulations including full Council where necessary. In particular a contingency has been built into the budget proposals in the form of the Financial Volatility Reserve (the balance is currently £55.769m) and the annual Contingency budget of £3.000m for 2020/21, for when additional funding cannot be found by way of virement from other service areas.

Joint Strategic Needs Analysis (JSNA and the Joint Health and Wellbeing Strategy (JHWS)

The Council must have regard to the Joint Strategic Needs Assessment (JSNA) and the Joint Health & Well Being Strategy (JHWS) in coming to a decision.

Approval of the budget is not a final decision about what the Council's services will be or about how much money will be saved under any particular proposals. Individual proposals will only be implemented after due regard to the legal matters that must be considered including the Joint Strategic Needs Assessment and Joint Health and Well-being Strategy.

Crime and Disorder

Under section 17 of the Crime and Disorder Act 1998, the Council must exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent crime and disorder in its area (including anti-social and other behaviour adversely affecting the local environment), the misuse of drugs, alcohol and other substances in its area and re-offending in its area.

Approval of the budget is not a final decision about what the Council's services will be or about how much money will be saved under any particular proposals. Individual proposals will only be implemented after due regard to the legal matters that must be considered including the duty under section 17 of the Crime and Disorder Act 1988.

3. Conclusion

3.1 These budget proposals reflect the level of government funding available to the Council and a proposal to increase general council tax in 2020/21 by 1.50%. The Adult Social Care "precept" is proposed to be set at 2.00% in 2020/21 and this gives a total council tax increase of 3.50%.

3.3 The budget proposal from the Executive meeting on 7 January 2020, as developed to reflect the changes contained in this report and consideration of consultation feedback, is recommended as the budget to be put forward by the Executive for approval at the County Council on 21 February 2020, subject to any change by the Leader to reflect the Final Local Government Finance Settlement, the National Living Wage cost pressure, and District Council business rates and final council tax information.

4. Legal Comments:

The Executive is responsible for publishing initial budget proposals for the budget in accordance with the Budget and Policy Framework Procedure Rules.

When publishing its budget proposals the Executive must be mindful of its obligation to have due regard to a number of matters including under the Equality Act 2010.

Case law has established that generally it is lawful for a Council first to decide its budget and then to consider the question of consultation and the specific impact of proposed policies and service changes at the time they are developed and decisions are taken on them. Consideration has been given to whether there are any specific proposals within the budget that would require such consideration

prior to the budget being set and apart from the proposed Council Tax increase which is dealt with in the Report there are not considered to be any such proposals.

The way in which it is proposed to deal with specific service proposals is set out in full in the body of the report.

The legal issues relating to the recommended level of council tax and prudential indicators and the requirement for a Flexible Use of Capital Receipts Strategy are set out in the Report.

The proposed Medium Term Financial Strategy forms part of the Council's Policy Framework. Approval of documents forming part of the Policy Framework is reserved to the full Council on the recommendation of the Executive.

The recommendations are within the remit of the Executive and are lawful. The Executive has the power to accept recommendation 3 or to agree one of the alternative approaches referred to in the report.

5. Resource Comments:

These budget proposals incorporate the level of funding available to the Council from Central Government plus an increase in council tax of 3.50% (1.50% plus a further 2.00% for the adult social care 'precept'). The Council's Financial Strategy includes one off contribution to the Development Fund earmarked reserve of £1.447m, plus £0.150m addition to the General Fund balance, to produce a balanced budget.

To achieve a sustainable budget from April 2021 onwards, a number of service reviews and transformation projects have started with the expectation that further savings will be delivered. The Government's funding reforms are awaited.

6. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

Overview and Scrutiny Management Board:

The Overview and Scrutiny Management Board considered the Council's Financial Risk Assessment for the year 2020/21 at its meeting on 24 October 2019.

The Overview and Scrutiny Management Board supported the Council's Financial Risk Register and the assessment of the appropriate level of General Reserves.

Councillor Budget Briefings:

At the beginning of December two budget briefings were held for all Councillors to attend. Comments from these meetings are included within Appendix B.

Further Scrutiny and Consultation:

A consultation meeting with local business representatives, trade unions and other partners took place on 23 January 2020. Comments from this meeting will be tabled at the meeting on 4 February 2020.

The Council's scrutiny committees scrutinised proposals in detail during January and their comments are included in Appendix I.

The Overview and Scrutiny Management Board will scrutinise the budget proposals in the report to the Executive on 7 January 2020 and their comments will be tabled at the meeting on 4 February 2020.

The proposal to increase Council Tax by 3.50% has been publicised on the Council's website together with the opportunity for the public to comment.

Consultation comments and responses are included in Appendix I for the Executive to consider alongside this report on 4 February 2020.

d) Have Risks and Impact Analysis been carried out??

Yes

e) Risks and Impact Analysis

An impact analysis relating to the proposal to increase Council Tax has been carried out and is attached at APPENDIX C. Proposed service changes to give effect to the budget will be subject to their own policy proofing considerations.

7. Appendices

These are listed below and attached at the back of the report	
Appendix A	Executive Report "Medium Term Financial Strategy and Council Budget 2020/21" 7 January 2020 plus A2 Budget Briefing Sessions December 2019 notes
Appendix B	Update to Council Budget following Provisional Local Government Finance Settlement
Appendix C	Impact Analysis relating to increasing the council tax by 3.50% in 2020/21
Appendix D	Revenue Budgets 2019/20 and 2020/21
Appendix E	Net Capital Programme 2019/20 to 2020/21 and future years

Appendix F	Council Tax Increase per Band
Appendix G	Prudential Indicators
Appendix H	Flexible Use of Capital Receipts Strategy 2020/21
Appendix I	Consultation Comments Received
Appendix J	Medium Term Financial Strategy

8. Background Papers

Document title	Where the document can be viewed
Provisional Local Government Finance Settlement announcements	Executive Director of Resources https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2020-to-2021
Executive Report 7 January 2020 "Medium Term Financial Strategy and Council Budget 2020/21"	Attached at Appendix A to this report.

This report was written by Michelle Grady, who can be contacted on 01522 553235 or michelle.grady@lincolnshire.gov.uk .