

Report to:

Council 27 February 2020



General Fund Revenue Budget 2020/21 and Medium Term Financial Plan 2020/21 to 2022/23

Report of the Leader of the Council

Purpose of the Report

1. To present to Council:

The Leader's General Fund Revenue Budget 2020/21 and Medium Term Financial Plan 2020/21 to 2022/23.

The following Appendices are attached to the report:

- A (i) - Summary of the Budget Consultation Exercise
- A (ii) - The Leader's Budget Statement 2020/21
- B (i) - Analysis of Budget Movements 2019/20 to 2020/21
- B (ii) - Schedules of continuing savings requirements for 2020/21
- B (iii) - Schedule of Review Activity for 2021/22 and beyond
- B (iv) - Service Profiles
- C - Schedules of Fees and Charges
- D - Analysis of Business Units' Budgets
- E - 3 year Medium Term Financial Plan 2020/21 to 2022/23
- F - Policy Regarding Capital Receipts Flexibility
- G - Risk Assessment of level of General Reserves
- H - Schedule of General and Earmarked Reserves
- I (i) - Hull City Council / Clinical Commissioning Group - Integrated Financial Plan
- I (ii) - Schedule of Planned review activity
- J - Council Tax and Precepts

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|---------|------------------------------------|
| K (i) | - DSG – Schools and Central Blocks |
| K (ii) | - DSG – High Needs Block |
| K (iii) | - DSG – Early Years Block |
| L | - CIPFA Resilience Index |

Executive Summary

2. The report provides the suite of assumptions and technical underpinnings for the Leader's Budget statement, shown at Appendix A (ii) and the savings proposals included at Appendix B (i).
3. The report also sets out the levels of Council Tax arising from the Leader's Budget Proposals for 2020/21. The resultant increase of 3.99% is in line with the referendum limits and includes a 2% Social Care Precept.

Recommendations

4. The Council is recommended to:-
 - i) Note the Leader's Budget Statement 2020/21 as set out in Appendix A(ii);
 - ii) Approve the Council's 2020/21 Revenue Budget savings and Service expenditure allocations as set out in Appendices B (ii) and D; subject to any budget amendments properly notified to and approved by Council in line with the Constitution;
 - iii) Note the proposed fees and charges for services at Appendix C
 - iv) Note the Medium Term Financial Plan as set out at Appendix E;
 - v) Approve the Capital Receipts Flexibility Strategy set out at Appendix F;
 - vi) Approve the contribution to/from reserves and levels proposed at Appendix H;
 - vii) Approve the Health and Social Care Integrated Financial Plan, showing the expected spend in the City of both the Council and Clinical Commissioning Group (CCG), and the review activity at Appendix I, and support decision making relating to funds within this Plan being subject to consideration and approval by the Committees in Common.
 - viii) Approve the levels of Council Tax, noting the precepts of the Police and Crime Commissioner for Humberside and the Humberside Fire Authority as set out at Appendix J
 - ix) Approve the allocations of Direct Schools Grant (DSG) including those relating to High Needs and Early Years as set out at Appendix K.

- x) Note the comments of the Director of Finance and Transformation and Section 151 Officer on the robustness of the Budget and adequacy of reserves as set out at paragraph 66 and informed by the CIPFA resilience index summarised at paragraph 60 and Appendix L.

Revenue Budget 2020/21 - Consultation

5. The Government announced details of the provisional Local Government finance settlement on 20 December 2019. The details were mirrored in the final settlement issued 6 February 2020, although the parliamentary debate and formal confirmation is now scheduled for the 24 February. The proposed funding allocations are at levels broadly in line with the indications provided in the Chancellor's Spending Round announcement in September 2019. This is a one year only settlement with a spending review to be conducted in 2020 for future years. The budget for 2020/21 reflects the funding detailed in the settlement and the resulting MTFP movements required to produce a balanced position.
6. Budget proposals were considered by Cabinet on 25 November 2019 with the detailed budget papers approved by Cabinet on 27 January following Value for Money and Overview Scrutiny of 24 January. Meetings have also been held with representatives of the Voluntary Sector, and Young People of the city as well as the Business Community regarding the Council's budget. The Council has also undertaken a broader exercise regarding meeting Council priorities in an environment of reducing public sector funding through the People's Panel in the form of market research. A summary of the consultation exercise is shown at Appendix A (i) alongside the Leader's Budget Statement which is attached at Appendix A (ii).
7. Subsequent to January Cabinet, the Leader's Budget proposals have been amended to include provision to meet additional costs arising following the Ofsted monitoring visit report on Children's Safeguarding Services. £3m has been identified within the Capital Programme to meet costs up to this level, including £1m earmarked to support fostering and adoption initiatives, to be drawn down in line with Member approval. The activity will be funded from capital receipts allocated to meet the costs of transformational activity.

Local Government Finance Settlement – Core Funding and Business Rate Retention

8. The Local Government Settlement for 2020/21, was issued on the 6th February 2020, and provides funding allocations for one year only. Following the previous four year financial settlement which ends in 2019/20, it was anticipated that there would be a full spending review during 2019. However, the political turmoil in Parliament has meant that a full review has not been completed. In September 2019 the Chancellor announced a single year spending 'round' which provided an outline of government's spending plans for 2020/21 which is consistent with the Settlement.

9. Whilst there has been an increase in Core Spending Power for 2020/21, mainly due to the additional social care grant and the 2% social care precept on council tax, this has done little to address the significant loss in funding in the previous ten years. The Council has lost £130m in Core Spending Power between 2010 and 2020, (a 55% reduction). Although significant reductions were faced across the whole local government sector, Hull and similar authorities, which have a high level of need but suffer from relatively low property values and economic growth, have continued to suffer disproportionately from the cuts in funding.
10. The spending round announcement, in September, also confirmed that both the Fair Funding Review implementation and the possible move to 75% Business Rate Retention would be delayed one year to 2021/22. This has increased the level of uncertainty around future local government funding and made any effort for long term planning more difficult. The Government has indicated that it intends to retain the system of 'top ups and tariffs' regarding Business Rates which is vital to cities like Hull, as it provides an element of redistribution from wealthier to poorer areas. It is essential for Hull that the Government ensures equity in the distribution of overall resources to adequately reflect comparative local needs and the differing abilities of councils to raise income locally. The Council will continue to lobby to best effect through direct responses to Government consultation proposals as well as the Local Government Association and SIGOMA (the Special Interest Group of Metropolitan Authorities) within it.
11. In Hull the increase in core funding (settlement funding assessment) in the next year is 1.6% as shown in Table 1 below. Despite the small increase in estimated funding in 20/21, funding is still likely to be below current cost levels as service demands continue to increase. It is within this context that the Council must seek to continue to control its costs in order to bring expenditure into line with available resources.

Table 1 – Movement in Core Funding 2019/20 to 2020/21 and projected 2021/22

	2019/20	2020/21	Change		2021/22	Change - from 2019/20 (Est)	
	£m A	£m B	£m	%	£m (Est) C	£m	%
Revenue Support Grant	23.99	24.38	0.39	1.6%	25.00	1.01	4.2%
Business Rate Funding							
- Top-Up	39.26	39.90	0.64	1.6%	40.88	1.62	4.1%
- Retained Business Rates	41.01	41.68	0.67	1.6%	42.75	1.74	4.2%
	80.27	81.58	1.31		83.63	3.36	
Total Core Funding	104.26	105.96	1.70	1.6%	108.63	4.37	4.2%

Balancing the 2020/21 Budget

12. The 2019/20 Budget approved by Council in February 2019 included savings of £9.303m with additional planned reductions of £3.150m in 2020/21 – although many of these savings originated during the 2017/18 budget round. As such, management activity has continued to focus on the successful completion of the existing savings plans and cost reductions as approved at February 2019. The projections set out in the July 2019 MTFP update to Cabinet suggested that there was a potential deficit in 2020/21 of £7.2m (£9.9m 2021/22).
13. However, following the Chancellor's Spending Round announcement in September 2019, the MTFP Update considered by Cabinet in November suggested that a balanced budget for 2020/21 was achievable without the need for significant additional savings or impact on service delivery. Whilst the Update identified additional spending pressures, beneficial movements were also identified alongside the Government's indication that additional funding would be provided for care services. Appendix B(i) shows the budget movements from February 2019 to the balanced position reflected in this report and are summarised below.

Implications of 2019/20 Activity and Outturn Projections for Care Services

14. Formal revenue monitoring reports during 2019/20 have highlighted significant cost pressures within both Children's and Adults Services arising from increased activity levels. As a result the proposed budget and MTFP include additional estimates to reflect the reality of the existing cost base with an additional £3.5m being included for 2020/21 for CYPS and £5.5m for Adult Social Care.

Priority Investments

15. Although it is necessary to restrict additional revenue growth in order to balance the budget, a limited number of additional investments have been incorporated into 2020/21 plans.

CYPS Transformation

16. It remains necessary that CYPS devise and deliver changes in service delivery in order to minimise the cost implications, improve outcomes for young people and families, and drive down the cost of placements in future years. Service developments are informed by the on-going response to OFSTED inspections and an additional £1.2m of investment funding has been included in the base budget.
17. Of this funding is being used £0.700m has been invested in Phase 3 of the transformation programme ensuring that staffing arrangements are fit for purpose and have capacity to manage case load numbers in line with expected good practice range. This investment is predominantly in the Independent Conference and Reviewing Service whose role is to challenge the Council and wider partnership on behalf of children and hold them to account. Investment has also taken place in the

front line EHASH and VEMT teams and the Fostering and Supported Lodgings teams who support carers.

18. £0.500m is to be invested in Domestic Abuse resource. Nationally and in Hull Domestic Abuse is a factor in 50% of social work assessments and in over half of all serious case reviews. Various 'whole family' approaches to tackling domestic abuse have been developed and tested under the DfE's Children's Social Care Innovation Programme. The approaches differ but all view family members as one part of a complex picture and all include perpetrators in this picture as far as possible. These programmes have delivered promising outcomes, including significant reductions in repeat MARAC referrals and reductions in the proportion of children becoming looked after in cases which feature domestic abuse. Further work is needed to identify and adapt a model which would best 'fit' for Hull. The additional investment will be used to secure a model which has integrity and a strong evidence base in order to maximise impact and positive outcomes.

Council Commitment to Carbon Neutrality

19. The 2030 Carbon Neutral Strategy for Hull sets out the key challenges and activity required to meet the direction set by the Climate Emergency motion at Council in March 2019. The strategy identifies actions across eight themes; heat, power, mobility, consumption, innovation, skills and jobs, fair transition and carbon sequestration. The Capital Strategy identifies a number of projects primarily focused upon the energy and mobility themes at present some of which have the potential to generate a return on investment in the near term and support revenue budgets.
20. The delivery of the strategy requires enhanced resources within the climate change area and the revenue budget provides for three additional full time members of staff to create a climate change team within the Regeneration Service area and £200,000 has been included in the budget to meet these enabling costs. The staff will provide additional capacity to move the capital programme projects forward, enable wider engagement with stakeholders, deliver a communications plan internally and externally, build coalitions of partners around the key themes of action, develop new projects and seek external funding. In addition there is revenue funding to undertake the assessment work required to develop future spend to save projects and develop detailed roadmaps for the themes to build upon the strategy and create targeted investment streams with defined carbon savings to drive carbon neutrality forward across Hull over the next five years.

Staff Training

21. As budgets are squeezed and service demands increase the training and development of the Council's staff is of critical importance. A review of the essential training and development requirements of staff identified a shortfall in available funding and as a result an additional £250,000 has been allocated to the Training Budget.

Capital Investment

22. There is a need to invest in the Council's assets and infrastructure in order to ensure the security of future service delivery. Details of the planned investment is included within the Capital Strategy and the associated increase in borrowing costs, £350,000, is reflected in the revenue budget.

Kat Card

23. The scheme is for young people up to 20 years of age and allows for unlimited travel across seven days on either of the bus operators networks. Bus operators discount the cost of the card alongside and the Council provide a further subsidy of £3.39 per card taking the cost to the customer down to £10 per card.
24. The scheme was funded from one off resources in 2018/19 and 2019/20, but has uptake has risen significantly in recent months and additional funding of £200,000 has been added to the base from 2020/21 to meet the expected costs.

Fly Tipping

25. £100,000 of additional resources have been allocated to enhance capacity in the dedicated team, improve response times and provide a more pro-active approach dealing with hotspot areas.

Taxi Marshalling

26. £60,000 has been allocated to fund a pilot scheme, to improve arrangements for both taxi drivers and passengers during busy periods.

Service Savings / Profiles

27. As part of the budget setting process, additional efficiency savings (i.e. those without direct impact on frontline services) of £1.229m (c0.5% of net spend) have been identified by Directors. The updated schedule of savings, totalling £4.279m (£3.050m brought forward from previous years including the final tranche of £2.800m arising from Adult Social Care Transformation) is shown at Appendix B(ii).
28. The forward projections, shown at paragraph 31 below, suggest that it is likely that the Council may face a material budget deficit in future years although the precise scale will not become clear until late 2020 at the earliest. As such it is essential that the Council protects its financial position by developing options capable of reducing the cost base, as maybe required through a programme of review activity.
29. It is not possible at this time to pre-determine the scale, or indeed the viability of savings associated with this programme of activity. Indeed, particularly with regard to the care services, the focus will be on delivering efficiencies and services benefits across the system thereby reducing future demand and cost. The focus over the coming years will be to develop, in good time options, which may include alternative service delivery models as well as potential savings, for Member consideration in the light of the prevailing financial context informed by Fair Funding. A schedule of proposed projects for further development is included at Appendix B(iii).

30. Appendix B (iv) includes Service Profiles for individual departments, providing activity and operational information as context to the budget proposals.

2020/21 Budget and Forward Projections

31. The table below summarises the projected movements and identifies sums required to balance the budget in each of the next 3 years. In summary, after factoring in the approved savings, as detailed at Appendix B(ii), the projections show a balanced budget for 2020/21 but shortfalls in the next 2 years. The 2021/22 position will need to be addressed during 2020 when it is anticipated that the Government's intentions regarding the future funding of Councils should be clearer. The 3 Year MTFP is shown at Appendix E with supporting narrative included in the paragraphs below.
32. Given the level of uncertainty with regard to future levels of local government funding, and the economy as a whole, together with the forecast budget deficit faced by the Council over at least the next 2 years, it is imperative that strict budgetary control is exercised across all services. The position within all services will continue to be closely monitored throughout 2020/21.
33. The provisional financial outturn providing details of 2019/20 actual spend against budget will be reported to Cabinet in May 2020 and this will inform the first formal revenue monitoring round for 2020/21. (The provisional outturn figures should be confirmed in July following the completion of the external audit of the Council's accounts).

Table 2 – Year on Year Movements

	2020/21	2021/22	2022/23
	£m	£m	£m
Movement in Resource Base	-9,764	-9,257	-8,033
Contingencies and Budget Pressures	14,043	14,194	9,718
Sum Required to Balance Budget	4,279	4,937	1,685
Savings - as at Appendix B(ii)	-4,279	-250	0
Budget Shortfall after applying savings	0	4,687	1,685
Budget Shortfall – Cumulative	0	4,687	6,372

Funding

Council Tax

34. Subject to Cabinet and Full Council approval, Council Tax projections have been reviewed and updated to reflect an assumed increase to the referendum level in operation for each year. The increase for 2020/21 includes 2% for a Social Care Precept that is available to authorities following the Chancellor's announcement in the September Spending Round –this is assumed for one year only. So these amounts currently are:
- Increase of 3.99% in 2020/21;
 - Increase of 1.99% in 2021/22 and 2022/23.
35. Robustness of collection rates which have been maintained despite the introduction of the Local Council Tax Support Scheme and subsidy rules and the minimum charge of 20% for working age council tax support cases. The projections also reflect net increases in the number of homes which includes the Kingswood development.

Review of Charges for Council Services

36. Fee levels have been set at values consistent with recouping the cost of providing the service and protecting Council revenues whilst ensuring income targets are realistic in the light of the current economic climate. The achievement of income targets will be reflected within the in-year monitoring reports, along with the delivery of the approved savings. The proposed charges for 2020/21 are shown at Appendix C.

Business Rates and Enterprise Zones - Uplift in Business Rates

37. The Council is entitled to retain 100% of any increase in Business Rates arising within the designated Enterprise Zones. This additional funding can be used, in agreement with Local Enterprise Partnership (LEP), to support LEP priorities within the City.
38. The MTFP reflects the planned use of the EZ Business Rates uplift to support the Council's regeneration activities through revenue funding of £2.7m in 2020/21 and in future years, with the balance earmarked to fund capital projects as part of the on-going regeneration of the City.

Employer Pension Contributions

39. Following the Triennial valuation of the East Riding Pension Fund as at 31 March 2019, the Actuary advised the value of employer's contributions relating to the funding of historic service benefits would reduce by 1% (c£1.25m per annum) for 2020/21 to 2022/23.
40. In line with the Cabinet decision of January 2020 to approve the pre-payment of employer contributions for the period April 2020 to March 2023, the projected employer costs have been reduced to reflect the savings associated with the pre-payment.

Capital Financing

41. The MTFP projections have also been updated to reflect latest information regarding the Capital Programme with Capital Financing Costs revised in line with latest expenditure projections. The projections in this report are consistent with the detail contained within the Capital Strategy elsewhere on this agenda.

Contingencies

42. Service budgets may be subject to further adjustments including the allocation of contingencies / provisions to meet cost pressures. These are technical adjustments which will not impact on approved service levels. Contingencies are shown within the MTFP at Appendix E and shown below at Table 3.

Table 3 – Contingencies to meet cost pressures

	2020/21 £000	2021/22 £000	2022/23 £000
- Energy Inflation (5% p.a.)	452	777	1,102
- Contractual Inflation – non Pay	1,624	3,124	4,624
- Pay Award (3% p.a.)	3,270	7,020	10,770
- Social care demographic fund	0	3,000	6,000
Total – Contingency Budgets	5,346	13,921	22,496

43. In addition to the assumptions set out above the following factors have also been taken into consideration.

Transformational Costs (Utilising Capital Receipts Flexibility)

44. The Secretary of State for Communities and Local Government issued guidance in March 2016, giving local authorities greater freedoms with how capital receipts can be used to finance expenditure. This Direction allows for the expenditure incurred in delivering revenue savings or service transformation, between 2016/17 and 2021/22, to be treated as capital and not be charged to revenue, subject to generating funding from asset disposals in the same period and Council approval of the planned use of the flexibility.
45. Between 2016/17 and 2019/20 it is anticipated that the Council will have funded £13.5m through this flexibility. The 2020/21 Budget includes £3m within the Capital Programme to meet the potential costs over the next 2 years of funding transformational activity within Children's Services. The Council's Strategy is included at Appendix F.

Schools Funding / DSG

46. The Council's financial position is impacted by the way in which schools are funded and the ongoing transfers to academy status. Schools with Academy status, of which the number in Hull is 92 receive all their funding direct from the Government rather than through the Council.

47. The Dedicated Schools Grant (DSG) receivable by the Council in 2020/21 of £55.1m compares to the 2019/20 value of £54m. This reflects our increase in funding from the DfE for High Needs of £4.7m but also the ongoing movement to academy status.
48. The DSG funding and costs must balance over time and, as highlighted in the successive monitoring reports to Members since 2017/18 some amendments to the pattern of expenditure will be required over the period of the MTFP. It is anticipated the DSG will end 2019/20 with a cumulative deficit of £3.2m, which is 1.4% of overall DSG. In 2020/21, it is anticipated there will be an in-year surplus of £1.6m which will be allocated to address the cumulative deficit with a view to achieving balance over 3 years.
49. The Council is continuing to work with the city's schools on the measures required to meet the needs of children within the available funding envelope. Changes impacting on service delivery will be the subject of future reports to Cabinet.
50. The budget figures for 2020/21 for the Schools Block, the Central Schools Services Block, the High Needs Block and the Early Years Block are shown in Appendices K (i) to (iii).

Public Health Grant

51. The September Spending Round indicated the Public Health Grant would receive a real terms increase in 2020/21, this has been estimated at £0.5m (remains subject to confirmation) and will be used to commission early intervention services. There are no increases assumed in later years within the MTFP.

The 3 Year Medium Term Financial Plan 2019/20 – 2021/22

52. The Medium Term Financial Plan shown in summary at Table 4 and in detail at Appendix E has been developed based on the assumptions discussed above and summarised below.
 - i) MTFP reflects the funding allocations in 2020/21 in line with the 2020/21 Provisional Settlement. There is no indicative data relating to 2021/22 and 2022/23, so estimated inflationary increases in funding have been assumed in the absence of detailed intelligence. There is a risk that funding may be lower than currently modelled and the forecasts may need to be revisited as the government works toward a spending review in 2020.
 - ii) Provision of resources to allow pay increases of 3% in 2020/21 and future years and an increase in non-pay budgets to reflect future contractual price increases.
 - iii) Delivery of the budget savings set out in Appendix B(ii)
 - iv) Council Tax increases to the referendum limit so currently 3.99% in 2020/21 and 1.99% in 2021/22 and 2022/23.

Table 4 – Summary MTFP

	2020/21 £m	2021/22 £m	2022/23 £m
Expenditure			
Directorates (including Public Health)	232.0	232.0	232.0
Schools	55.1	53.1	53.0
Corporate Budgets (including provisions for pay, prices, pensions)	24.8	42.1	51.5
Net Budget requirement	311.9	327.2	336.5
Funding			
Government Grant / Retained Business Rates	-219.2	-230.8	-236.1
Contribution (to) / Use of Revenue reserves	-3.5	0	0.3
Contribution (to) / Use of Capital Reserves			
Council Tax (Increases of 3.99%/ 1.99% / 1.99% increase)	-89.2	-91.7	-94.3
Total Funding	-311.9	-322.5	-330.1
Shortfall	0	4.7	6.4

Joint Commissioning with Clinical Commissioning Group (CCG)

53. As detailed in the table above, the latest projections indicate that the Council is faced with a budget shortfall in 2021/22 of £4.7m. Based on current projections the deficit is set to increase in 2022/23 to £6.7m. This primarily reflects the Council's rising costs relating to the care of vulnerable children and the demand pressures within the wider adult and children's care system and the health sector across the city.
54. The Council cannot seek to address these issues and cost pressures in isolation, and so must continue to work with our partners, and specifically the Clinical Commissioning Group (CCG), to manage demand across the system utilising the resources available within the City. The move towards joint commissioning between the Council and CCG is developing at both an Officer (Integrated Commissioning Officer Board) and Member (Committees in Common) level and this provides confidence that efficiencies and improved value for money can be achieved. The total joint funding "envelope" has been agreed with the CCG along with a schedule of commissioning and service reviews to be jointly considered over the coming years, are shown within Appendix I (i) and (ii). The outcome of the review work will be subject to approval by the Committees in Common.

55. The move towards closer working with the CCG builds on the national drive to reduce public sector expenditure and improve the quality of care the Government is seeking to encourage closer working between Councils and the NHS. In broad terms there is a nationally recognised desire to reduce the cost of acute health care through better focussed and resourced community services designed to meet the care needs of individuals at an early stage and therefore reduce the call on expensive acute services.
56. To this end the Government introduced the Better Care Funding initiative in 2015/16 which sees significant resources from the NHS, and local Councils, jointly managed under the auspices of Health and Well Being Boards with a formal pooled budget arrangement. The MTFP for 2020/21 reflects the expected level of funding received from the NHS to support services.

Reserves

57. General Balances at April 2019 were £12.97m and the 2019/20 budget, as approved in February 2019, assumed an increase of £6.3m during the year.
58. A detailed risk assessment for the level of reserves is attached at Appendix G. In the light of the cost pressures recorded in 2019/20, the very real challenges faced by the Council in maintaining services whilst potentially suffering further cuts in funding and the continued uncertainty over government funding and the impact of BREXIT, the Risk Assessment continues to reflect the need to bolster General (Un-earmarked) Reserves to c£21m by 2020/21, as reflected within the budget proposal.
59. A schedule of Reserves movements is included at Appendix H.

Resilience Index

60. As part of the Government's and the Local Government sector's shared desire to better manage the financial risks faced by Councils, CIFPA have recently issued their Financial Resilience Index. The Index measures each Council against 9 indicators, relating to reserves, debt servicing, social care and income generation, and provides comparison against other authorities. Whilst the Index should be seen in the context that all Councils are individual in terms of history, circumstance and strategy, the measures provide a useful comparable tool. The critical factors are considered in the paragraphs below with a summary of Hull's analysis included at Appendix L.

- Reserves

61. Critically, whilst the analysis provides a good degree of comfort in terms of financial sustainability which reflects the fact that the Council has not used General Reserves to support the Revenue Budget, the Index highlights that despite bolstering over the last 3 years, they remain at comparably very low levels. This highlights the importance of protecting the General Reserves position in the light of the Council's forecast budget deficit in 2021/22 ahead of the long awaited Spending and Fair Funding Reviews.

- Servicing of Debt

62. Whilst the Council's recorded debt levels appear relatively high it is important to note that this is in line with expectations given that the Council retains a large housing stock, and the associated housing debt, and has benefited from significant PFI investment which taken together at £400m account for c50% of the Council's recorded debt. Taking these adjustments into account HCC would move into the middle range which is consistent with the measure of interest costs as a proportion of total spend which places Hull around the average of comparable authorities.

- Social Care

63. This indicator is designed to highlight the future "flexibility" a Council may have in terms of reducing costs in services other than the statutory care services. The indicator places Hull in the middle range where social care costs account for c70% of expenditure with c30% on other services.

- Income Generation

64. The Index also highlights the very low tax base and relatively low levels of income generated from service users, which is consistent with being measured as a relatively deprived area, which in turn limits the scope for raising income locally through Council Tax or service charges. Similarly the Growth above Baseline measure highlights the relatively low level of growth in Business Rates but, given the planned "reset" of Business Rates whereby there will be a redistribution of such growth between authorities this translates into a low risk position for the Council.

Statutory Officer Comments

65. Under Section 25 of the Local Government Act 2003, and CIPFA Code of Practice, the Authority's Chief Financial Officer (s151 Officer) is required to report on the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed reserves.

Members are required under the 2003 Act to have regard to the Chief Financial Officer's report when making decisions about the budget calculations.

66. **The Director of Finance and Transformation (section 151 Officer) has made the following statement:**

The robustness of the budget estimates and the adequacy of the reserves are largely dependent on the levels of risk and uncertainty. The principal financial assumptions made in the budgets are noted in this report and attached appendices. Budget monitoring throughout the year will be an important tool in identifying at an early stage potential problems so appropriate action can be taken.

The delivery of the planned savings and major business projects is critical to the successful delivery of the Council budget strategy. Current activity provides adequate assurance as to the deliverability the 2019/20 budget with future year

forecasts representing realistic planning assumptions which will be subject to review as part of the annual budget setting process.

The budget has been prepared reflecting known service pressures and following through reviews by City Managers of planned savings.

A risk based approach to consideration of the level of reserves is a component of the Council's overall risk management framework. Operational risks should be managed within Services' bottom line budgets and thus will not normally result in a call on the Council's reserves.

Appendix G summarises the significant financial risks applicable to Un-earmarked Reserves. The total potential risk to the Council is estimated to be £18m in 2020/21. The Authority's Un-earmarked Reserve was £8m at 31 March 2018 and is presently envisaged to be increased to £19m at 31 March 2020, and in the proposed budget it is planned to rise to £21m at 31 March 2021.

As noted above at paragraphs 60, comparison with all unitary councils, continues to show that Hull has a relatively low level of reserves when set against the scale of its operations, and also that it is relatively highly dependent on receiving government RSG and grant funding. These issues have been highlighted consistently and have informed reporting and lobbying for a considerable period of time. The latter aspect in particular has informed matters such as the Council's response to the Fair Funding consultation, when, along with many counterparts from elsewhere facing similar position, the case was made very clearly that deprivation and the difficulty of raising income locally should be prime factors driving a new, more equitable, system for the distribution of government funding.

My assessment of the process that has been undertaken set alongside the risk assessment, informed by the CIPFA Resilience Index, is that the budget calculations used in the preparation of the budget estimates are fair and robust and reserves are adequate to reflect known circumstances.

67. The Town Clerk (Monitoring Officer) has made the following statement:

The case of R (Buck) v Doncaster MBC [2012] the High Court confirmed that the role of Full Council in relation to the budget process is limited to the allocation of resources to meet the authority's potential expenditure for the next financial year, which enables it to set an appropriate level of council tax.

The Town Clerk considers that the Leader's proposals fulfil the statutory requirements set out below with regard to setting the amount of Council Tax for the forthcoming year and to set a balanced budget:-

S30 (6) Local Government Finance Act 1992 (the 1992 Act)

This section requires that Council Tax must be set before 11 March, in the financial year preceding that for which it is set. Failure to set a budget by this date does not of itself render the Council Tax invalid.

S31A the 1992 Act

This section sets out the calculations to be made in determining the council tax requirement, including contingencies and financial reserves. Failure to undertake the required calculations renders any Council Tax void and unenforceable.

S31B the 1992 Act

This section sets out the detail of the calculations required to meet the Council's obligations as at S31A.

S25 (1) Local Governance Act 2003 (the 2003 Act)

The Chief Finance Officer of the Authority (i.e. being the appointed S.151 Officer) must report to it on the following matters:-

- a) the robustness of the estimates made for the purposes of the calculations; and
- b) the adequacy of the proposed financial reserves.

S25 (2) the 2003 Act

When the Council is considering calculations under S31A, it must have regard to a report of the Chief Finance Officer (being the appointed Section 151 Officer) concerning the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

The Local Authorities (Functions & Responsibilities) (England) Regulations 2000 (as amended)

These Regulations set out what are to be the respective functions of Council and of the Executive. With regard to the setting of the budget and Council Tax for the forthcoming year, Regulations provide that the Leader formulates the plan or strategy (in relation to the control of the Council's borrowing or capital expenditure) and the preparation of estimates of the amounts to be aggregated in making the calculations under S31A of the 1992 Act. The approval of such plan or strategy/calculations is the responsibility of full Council.

68. Comments of City Manager for Human Resources

The budget does not include identified funding for redundancies or to pay pension strain costs. The assumption is that staff can be redeployed when restructuring is required, however this is not always possible as posts have to be available at the right time and have to be suitable and a reasonable alternative. A full equality impact assessment will need to be completed when service changes impact on service delivery.

69. Comments of Overview and Scrutiny

This report, alongside the suite of other budget reports, is due to be considered by the Finance and Value for Money Overview and Scrutiny Commission at its meeting

of 24 January 2020. Any comments or recommendations agreed at the meeting will be tabled at January Cabinet for consideration alongside the report. (Ref. Sc5693)

Collection Fund and Council Tax Implications

70. The Local Government Finance Act 1992 (as amended by the 2003 Act and the Localism Act 2011) sets out the powers and duties of the Council in setting the annual Council Tax. The key requirements are that:-
- i) Council Tax is set at Full Council.
 - ii) Council Tax is set at a sufficient level to meet its proposed budget requirements for the ensuing year (see Sections 31A and 31B of the Act).
 - iii) The level of Council Tax is set before 11 March to enable circulation of Council Tax bills to enable people to pay on and after 1 April (see Section 30(6) of the Act).
 - iv) The Chief Finance Officer must report on the robustness of estimates and the proposed adequacy of reserves (see Section 25 of the Act and paragraph 56 above).
71. The Council is required to set a Council Tax sufficient to balance the Collection Fund account it maintains. Based on the projections at November 2019 and looking back at the income received in 2019/20, it is forecast that there will be a surplus on this account at year end. The balance is required to be distributed to the contributing or precepting authorities (the Council, Police and Fire & Rescue). Hull City Council's net surplus is forecast to be £1.5 m and will be used in funding the 2020/21 budget as per Appendix E.
72. Under section 52ZB of the Act, each billing authority must determine whether its relevant basic amount of council tax for a financial year is excessive. If an authority's relevant basic amount of council tax is excessive, a referendum must be held in relation to that amount. Using the Governments' principles determined by the Secretary of State under section 52ZC of the Act, the Councils' relevant basic council tax for 2020/21 is not excessive and therefore no referendum is required.
73. The Council approved a Council Tax Base of 62,554 (Band D equivalents) for 2020/21 at its meeting on the 16 January 2020. Given the Council Tax requirement of £89,200,127, the Band D Council Tax proposed for 2020/21 is £1,425.97. This represents an increase of 3.99% over the 2019/20 charge. This is below the limit of 4% (including 2% for Social Care), above which the Government require a local referendum to take place to confirm such an increase.

Table 6 Proposed Council Tax Charge per Band

Band	Charge 2019/20	Proposed Charge 2020/21	Increase	Increase per week
	£	£	£	£
A	914.17	950.65	36.48	0.70
B	1,066.54	1,109.09	42.55	0.82
C	1,218.90	1,267.53	48.63	0.94
D	1,371.26	1,425.97	54.71	1.05
E	1,675.98	1,742.85	66.87	1.29
F	1,980.71	2,059.73	79.02	1.52
G	2,285.43	2,376.62	91.19	1.75
H	2,742.52	2,851.94	109.42	2.10
NB These figures exclude the charges for the Police and Fire Services. Total charge is shown at Appendix J.				

74. The precept for the Humberside Police and Crime Commissioner for 2020/21 is £14,276,074. When this amount is divided by the approved Council Tax base of 62,554, it gives a Council Tax charge for a Band D property in the Kingston upon Hull area of £228.22. This is an increase of £4.91 (2.2%) on the 2019/20 charge and is below the £10 level at which a referendum would be required.
75. The precept for the Humberside Fire Authority for 2020/21 is £5,419,053. When this amount is divided by the approved Council Tax base of 62,554, it gives a Council Tax charge for a Band D property in the Kingston upon Hull area of £86.63. This is an increase of 1.99% on the 2019/20 charge.

Equality Impact Assessment Analysis

76. Section 149 of the Equality Act imposes a Public Sector Equality Duty on 'public authorities' when exercising public functions to have due regard to the need to:
- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
77. Relevant protected characteristics are – age, disability, gender reassignment, pregnancy and maternity, race, religion and belief, sex and sexual orientation and, to a more limited extent, to the protected characteristic of marriage and civil partnership.

78. To 'have due regard' means that in making decisions and in its other day-to-day activities the Council must consciously consider the need to do the things set out in the general equality duty: eliminate discrimination, advance equality of opportunity and foster good relations.
79. The Council will only be able to comply with the general equality duty in relation to a decision, if the ultimate decision maker:
- understands the Council's obligations under the general equality duty
 - has sufficient information
 - demonstrably takes this information fully into account throughout the decision-making process.
80. The courts have stressed the importance of having due regard before and at the time that a particular policy is being considered, and of exercising the duty with an open mind.
81. The proposals contained within this report relating to 2020/21 do not provide for reductions in service delivery beyond those previously approved by Council. However, in response to ongoing changes in services design and delivery, services will continue to consider 'due regard' for equality and demonstrate this via Equality Impact Analysis assessments.
82. It should also be recognised, that there will be positive impacts too from investment in capital projects supporting such as Housing Regeneration, Visitor Destination, Highways, A63 Bridge and infrastructure improvements which will particularly benefit older and disabled people. ICT improvements will likely mean better access for staff and customers particularly disabled, younger people and women.
83. The EIAs will be developed in consultation with stakeholders such as Elected Members, Trade Unions, protected groups, customers and users of services/policies.

Councillor Stephen Brady, Leader of the Council

Contact Officer – David Bell Tel. 01482 613084

Officer Interests: *None*

Background Documents:

(i) MTFP Cabinet Reports November 2019 / July 2019

Implications Matrix

I have informed and sought advice from HR, Legal, Finance, Overview and Scrutiny and the Climate Change Advisor and any other key stakeholders i.e. Portfolio Holder, relevant Ward Members etc prior to submitting this report for official comments	Yes
I have considered whether this report requests a decision that is outside the Budget and Policy Framework approved by Council	Yes
Value for money considerations have been accounted for within the report	Yes
The report is approved by the relevant City Manager	n/a
I have included any procurement/commercial issues/implications within the report	Yes
I have considered the potential media interest in this report and liaised with the Media Team to ensure that they are briefed to respond to media interest.	Yes
I have included any equalities and diversity implications within the report and where necessary I have completed an Equalities Impact Assessment and the outcomes are included within the report	Yes
Any Health and Safety implications are included within the report	Yes
Any human rights implications are included within the report	n/a
I have included any community safety implications and paid regard to Section 17 of the Crime and Disorder Act within the report	Yes
I have liaised with the Climate Change Advisor and any environmental and climate change issues/sustainability implications are included within the report	Yes
I have included information about how this report contributes to the City Plan/ Area priorities within the report	Yes

