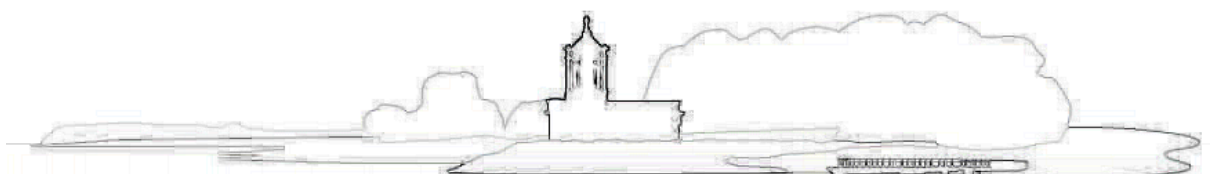




# Rutland County Council

## **The Revenue and Capital Budget 2020/21**



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## **1 FUNDING OUTLOOK**

### **1.1 The draft Local Government Finance Settlement**

- 1.1.1 The draft Settlement for 20/21 was better than originally anticipated when the budget was set in 19/20 but consistent with our expectations following the Spending Review 2019. Delays in implementing Fair Funding and other reforms alongside a recognition that critical local government services are under pressure has meant that the Government has indicated that funding will not be reduced. In particular:
- The expected loss of Revenue Support Grant of £958k (originally expected to happen in 19/20) looks like it will not happen for the second year running;
  - Additional grant funding has been announced for Social Care: £482k above that received in 19/20 and in total £712k more than originally envisaged;
  - The Rural Services Delivery grant (£849k) and Public Health grant (£1.2m) are not expected to be absorbed within Business Rates funding as originally expected. These grants continue for 20/21 thereby mitigating an expected loss of c£500k.
- 1.1.2 However, the Council's core Government funding is in cash terms still only marginally more (£384k) than it was in 19/20 and still £135 per head less than other Unitary Councils. On the one hand the position is positive as the Council predicted losses of c£2.5m<sup>1</sup>, on the other hand there is little more Government funding support for inflation (£500k), pay increases, including pension and National Insurance (£900k) or the additional demand for services (£1.6m).
- 1.1.3 The Spending Review and subsequent Finance Settlement focused on 20/21 only. Beyond 20/21 the Government funding position is unknown. Whilst there is an acknowledgement that there are pressures and funding challenges and reference to various ongoing reviews (Social Care Green Paper, Fair Funding review, Business Rates Retention) there is no certainty of additional funding yet. The Council believes that the additional funding provided in 20/21 should continue but there is no guarantee of this.
- 1.1.4 The expected funding settlement for 20/21 has not changed the overall direction of travel with Government funding significantly reduced compared to 2015/16 when the latest change in the funding system was introduced with the expectation that Members continue to raise Council Tax and levy the Adult Social Care precept (discussed in detail in section 2).
- 1.1.5 Using Government figures, core spending power (figure used by

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<sup>1</sup> The budget MTFP for 19/20 expected Government funding to reduce from £10.3m to £8.9m with an additional £1.2m of Public Health grant to be absorbed within business rates resulting in a total loss of c£2.5m.

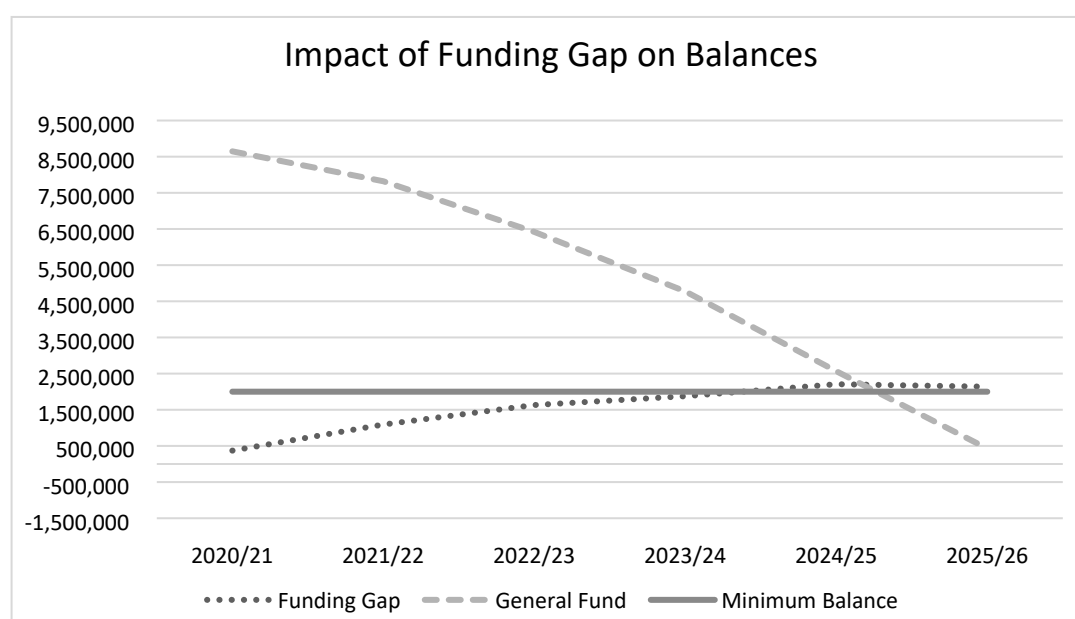
Government to compare available core funding) of local authorities in England is £49.1bn in 20/21 compared to £44.6bn in 15/16 (10%). In 20/21 60% comes from council tax compared to 49% in 15/16. The picture for Rutland is slightly better with core spending power at £35.3m in 20/21 compared to £30.12m in 15/16 (17%). In 20/21 79% of our spending power comes from Council tax. This figure is much higher than the national average of 60%.

#### Overall funding available 16/17 – 20/21 (1)

	2016/17	2017/18	2018/19	2019/20	2020/21
RSG	2.354	0.889	0	0	0
Transitional Grant	0.340	0.337	0	0	0
Rural Service Delivery Grants	0.843	0.681	0.849	0.849	0.849
Tariffs relating to Business Rates	0	0	0	0	0
<b>Core government funding</b>	<b>3.537</b>	<b>1.907</b>	<b>0.849</b>	<b>0.849</b>	<b>0.849</b>
Misc grants (2)	0.310	0.351	0.392	0.875	1.039
New Homes Bonus (3)	1.230	1.214	1.231	1.148	0.966
Better Care Fund (4)	2.046	2.061	2.306	2.215	2.330
Business rates (5)	4.770	4.786	4.963	5.244	5.532
<b>Total government funding</b>	<b>11.893</b>	<b>10.319</b>	<b>9.741</b>	<b>10.331</b>	<b>10.716</b>
<i>Council tax (inc collection fund and adult social care precept)</i>	<i>22.172</i>	<i>23.412</i>	<i>24.800</i>	<i>26.496</i>	<i>27.863</i>
<b>Total resources</b>	<b>34.065</b>	<b>33.731</b>	<b>34.541</b>	<b>36.827</b>	<b>38.579</b>
Use of Council earmarked reserves	(0.079)	0.288	1.295	(0.384)	(0.292)
<p>1 - Funding represents amounts available at budget setting. Additional grants received in year for specific items (e.g. Brexit) are not included.</p> <p>2 - Includes Social care grants of £712k</p> <p>3 - NHB income for 20/21 is known but is assumed to be abolished from 23/24</p> <p>4 - The Better Care Fund is to continue in 2020/21, with the allocation increasing by 3.4% (up £76k to £2.33m in Rutland)</p> <p>5 - In Rutland, 50% of rates are paid to Government, 1% is paid to the Fire Authority, and 49% is retained by the Council. Of the 49% retained, the Council pays a further tariff to the Government (valued at £1m). The estimates can be impacted by factors that reduce rates due (appeals, business failure, and greater discounts) or increase rates due (new business).</p>					

## 1.2 The financial gap

- 1.2.1 Beyond 20/21, the Council assumes that spending will increase through inflation/demand and housing growth and that Government funding will continue along its existing trajectory. The outcome of the reforms referred to in para 1.1.3 will be critical in shaping future funding but the timetable remains unclear.
- 1.2.2 The Council is predicting a gap in funding of c£1.4m by 21/22 but over time this grows to £2m by 24/25 as shown in the chart below if no further action is taken. The chart shows that by 25/26, Council reserves will be below the minimum level needed and soon after the Council will have no reserves left.
- 1.2.3 The above position is speculative and assumes the Council does not deliver any further savings (this is highly unlikely). As noted in the new Corporate Plan, the Council is working on an “Emergency Budget” i.e. one that would offer some savings/income options for Members to consider. Owing to the significant amount of savings delivered to date and the areas where budgets cannot be cut, these options will inevitably involve savings made at the expense of service reductions. Further information is given in section 1.4.



## 1.3 Risks and uncertainties

- 1.3.1 While the MTFP provides a useful modelling tool that can be used to demonstrate the effect of a range of variables on the Council’s financial stability over the medium term, there are a number of inherent risks that could impact on funding and spending that are outside of the Council’s control (these are covered below).

	Issue/risk	Impact/ Action to mitigate risk
1	The Government announced its intention to introduce 75 per cent <b>business rates</b>	MTFP assumes grants rolled in but

	Issue/risk	Impact/ Action to mitigate risk
	<b>retention</b> for all in 2020/21. This is now likely to happen in 21/22 but we await further information. This will be through rolling in Revenue Support Grant, the Rural Services Delivery Grant and the Public Health Grant.	further funding loss expected.  The Council will track progress.
2	<p>The <b>Fair Funding Review</b> is re-examining what the “needs” of authorities are and how funding may be allocated taking into account available resources.</p> <p>Further consultation will be forthcoming. The Council may benefit but this will depend on two key factors – how deprivation is factored in (if it is then Rutland more likely loses out) and whether notional Council tax is used (if it is then the Council will likely gain as it has a high level of Council tax).</p>	<p>There is no sense that additional funding will be made available which is the biggest concern but funding could be diverted from district councils to those with social care responsibilities.</p> <p>The Council will track progress.</p>
3	<p>The Government has previously indicated it would <b>transfer additional responsibilities</b> to local authorities and fund this through surplus rates.</p> <p>The MTFP assumes no transfers of responsibility and funding for now further to the Settlement.</p>	<p>Historically, where there have been transfers, the Council has “lost” funding e.g. council tax benefit. The Council will only lose out if transfers are not cost neutral.</p>
4	<p>The <b>Social Care Green Paper</b> is awaited. It should offer a model for how social care will be funded in the future. It has been delayed a number of times and the timetable is unclear.</p>	<p>MTFP assumes no new funding for now but it is likely that existing grants will continue in some form.</p>
5	<p><b>Better Care Fund</b> will continue into 20/21 but the level of funding beyond then is unsure and future reforms to the NHS or changes to the way social care is funded could change this landscape. The Social Care Green paper may give further clarity.</p>	<p>The MTFP includes the BCF in line with published allocations.</p> <p>A loss or reduction in funding could cause significant pressures.</p> <p>We work closely with Health to get the best</p>

	Issue/risk	Impact/ Action to mitigate risk
		outcomes for Rutland residents.
6	<p>The <b>New Homes Bonus</b> continues with no changes announced in the Settlement. The baseline will remain at 0.4% for 20/21.</p> <p>The Council assumes the scheme will not change and calculates income based on anticipated housing growth.</p> <p>After 20/21 the Council assumes that NHB will effectively be abolished and that in 21/22 we will get the allocations relating to 20/21 and 21/22 with a 1 year allocation in 22/23 and no payments from 23/24.</p>	<p>The MTFP factors in losses which help inform a funding gap.</p> <p>It is possible that abolition of NHB may see additional core funding for authorities.</p> <p>The MTFP prudently assumes this is not the case.</p>
7	<p><b>Schools funding</b> (Dedicated Schools Grant) is outside of the General Fund and is ring fenced.</p> <p>The Council is carrying a deficit on the DSG caused by High Needs pressures which it aims to recover over time. The Council could come under pressure to meet the costs despite DfE assurance in writing that Councils are not expected to meet the costs of any deficit. The level of deficits nationally are significant and growing (despite additional funding in 20/21) to the point that the Council is unclear as to how the Government will deliver on this promise (see also para 6.2).</p>	<p>Education team working with Schools to tackle issues. Recovery plan to be submitted to Department for Education in June 2020.</p> <p>Lobbying being done through our local MP.</p>
8	<p>The <b>Local Plan</b> is the plan for the future development of Rutland which is drawn up by the Council in consultation with the community. Budget does include an allocation to deliver the Local Plan but additional costs could be incurred if the Plan is subject to challenge by third parties.</p> <p>The Local Plan will identify how much additional new development will be needed</p>	<p>The Council has a legal earmarked reserve that can be called upon if needed and a specific one off budget for Local Plan costs.</p> <p>MTFP includes housing growth and additional costs for</p>

	Issue/risk	Impact/ Action to mitigate risk
	<p>in Rutland over the next 20 year period to 2036 and where this should be located.</p> <p>The housing numbers impact a) infrastructure requirements – paid for primarily from CIL/s106, b) demand for services – paid for from the General Fund, and c) level of Council tax income to help meet additional service costs.</p>	<p>delivering services alongside council tax income.</p>
9	<p><b>St Georges Barracks</b> will close in 2021/22. The Council receives both council tax and business rates from this site.</p> <p>The Council and the Defence Infrastructure Organisation (DIO) have a shared vision for St George's to create a new 'garden community' with the right mix of housing, enterprise, leisure and recreation.</p> <p>The Council has been awarded external funding to help take forward this project from the Housing Infrastructure Fund (HIF) subject to Full Council approval.</p>	<p>New houses and business would deliver additional council tax, business rates and Community Infrastructure Levy which would be used to expand existing services and build new infrastructure.</p> <p>MTFP assumes housing development (minimum 160 per annum) whether this is delivered at St Georges Barracks or elsewhere.</p>
10	<p>It is expected that trade unions and others will continue to lobby for <b>pay inflation</b> increases above inflation. The rate for 20/21 is still to be negotiated with the Council setting aside 3% given the initial 'ask' from the Unions of c10% which has been rejected.</p> <p>The Council is part of the national bargaining agreement so is not directly in control of negotiations.</p>	<p>The MTFP assumes 3% for 20/21 and 2% thereafter.</p>
11	<p>The MTFP includes some <b>service pressures</b> as growth is built in where there is a degree of certainty. However there are a range of potential issues across different services that could have an impact including:</p>	<p>As far as possible Directors will try to manage costs pressures within budget.</p>



	Issue/risk	Impact/ Action to mitigate risk
	<ul style="list-style-type: none"> <li>The increase in children with Special Educational Needs is having an impact on the Schools Budget (see 7 above) as well as core General Fund budgets – costs of administering high needs packages and meeting transport costs are growing.</li> <li>Increases in the cost of care packages arise from a greater demand for services and complexity of care required. Case costs can range up to £300k and so very small changes in demand can have a big impact.</li> <li>An increase in costs of looked after children beyond that budgeted – efforts to minimise costs through recruitment of foster carers does not guarantee that “need” can be met locally.</li> <li>Downturn in local economy impacting income from rental units, car parking etc</li> <li>Extra interim staffing costs arising from difficulties in recruiting staff.</li> <li>An unexpected by-election.</li> </ul>	<p>The Council has earmarked reserves which can be used.</p> <p>Sufficient balances will also be maintained to cope with unforeseen cost pressures in the short-term.</p>
12	<p>Whilst <b>inflation</b> has been higher for some time and the Government target is to keep it below 2%, there are emerging issues as we await the outcome of Brexit that are causing pressure on the £. This could further impact the prices the Council pays for goods and services.</p>	<p>The Council will monitor the position on key contracts and has inflation built into the MTFP which has been revisited as part of the 20/21 budget.</p>
13	<p><b>Interest rates</b> may change thereby reducing the Council’s ability to earn investment income.</p> <p>Regular review of the position and consideration of the balance between investing surplus cash and using it to repay long term debt.</p>	<p>Advice from our Treasury advisors is factored into investment returns expectations.</p>

	Issue/risk	Impact/ Action to mitigate risk
14	<p><b>Capital financing</b> costs have been estimated based on the assumption that some borrowing is undertaken during the life of the MTFP to fund property maintenance costs.</p> <p>Corporate analysis of existing and potential new projects indicates that no further external borrowing is required at this stage.</p>	<p>The Capital Investment Strategy allows for external borrowing only where there is a revenue payback so this would have a positive MTFP impact.</p>
15	<p>The Council has seen <b>demographic</b> changes over time and will do so again in the future. Changes in population and number of households have not always translated into increases in service costs.</p> <p>The Council is expecting to see population changes over the next 5 years. This has the potential to create additional demand of up to 4% per annum on adult social care.</p>	<p>The Council now includes an estimate for increased needs in its MTFP.</p> <p>The Council has a Social Care Reserve and a Social Care contingency to allow it to respond to changes in demand in-year.</p>
16	<p>The Council has a number of <b>outsourced services</b> and retendering of contracts can lead to price pressure depending on the number of interested suppliers and market conditions. Key contract expiry dates are (Refuse – 2022, Residual Waste – 2021, Street Cleaning – 2022, Leisure – 2021, Highways 2022).</p> <p>The Council will aim to make savings on reprocurement in light of its financial position but one off specialist support will be needed to:</p> <ul style="list-style-type: none"> <li>• Support market testing – gain intelligence about market conditions, appetite of bidders, recently commissioned tenders etc</li> <li>• Provide Tender support – for example in terms of writing specifications in a way to illicit most bidders and best possible bid</li> <li>• Give Legal advice – in terms of contracts, terms and conditions, procurement method</li> </ul>	<p>The MTFP is prudent and does not include savings for contracts to be let.</p> <p>The budget for 20/21 does include provision for external support to enable the Council to get the best deal. This amount is uncertain and could go up or down.</p>

	Issue/risk	Impact/ Action to mitigate risk
17	<p>The Council's net <b>pension liability</b> for the Local Government Pension Scheme (controlled by Leicestershire County Council as the Pension Fund administrator) has decreased.</p> <p>Contribution rates have been confirmed for the next three years.</p>	<p>The position will be monitored but the Council's MTFP includes a 1% increase in rates per annum as per the Pension Fund.</p>
18	<p>The Government has not yet voted on the proposed <b>Brexit</b> deal but following the election, we anticipate leaving the EU by January 2020.</p> <p>The outcome of Brexit could not only impact the Government's comprehensive spending review next year, but also the local economy, local business and jobs.</p>	<p>The Council has been preparing for Brexit with Government funding received.</p> <p>The MTFP is neutral in respect of Brexit but the loss of key local business could have an impact of £300k before the Council is compensated by Government.</p>
19	<p>The Council has over the last few years spent more on <b>Legal Services</b>. Key themes include:</p> <ul style="list-style-type: none"> <li>• An increase in the number of social care interventions in which we have been involved in. These require court orders, legal case reviews, etc. Very often the cases result in ongoing costs and challenges.</li> <li>• SEND legal costs are increasing as a result of parents choosing to appeal the decisions of the Council.</li> <li>• Additional work in relation to issues surrounding the Deprivation of Liberty for a number of vulnerable adults. There are requiring additional expertise.</li> <li>• Dealing with matters pertaining to issues raised re the Council's work in respect of STGB.</li> </ul>	<p>The Legal budget has been increased to reflect current costs.</p> <p>Additional in house resource is being sought to reduce cost of external provision.</p>

	Issue/risk	Impact/ Action to mitigate risk
	<ul style="list-style-type: none"> <li>Other examples include a planning enforcement case, and a planning judicial review that is ongoing.</li> </ul>	
20	<p>In December 2018, the Government produced a <b>Waste Strategy</b> which if implemented could have significant implications for all Councils. It set out, amongst other matters, an ambition:</p> <ul style="list-style-type: none"> <li>for all household to have a separate weekly food waste collection;</li> <li>for garden waste to be collected free of charge; and</li> <li>to review the frequency of household waste collections.</li> </ul> <p>The cost of implementing this Strategy national was not estimated but the cost locally would be substantial i.e. in excess of £1m as most proposals were presented as non discretionary.</p>	<p>No provision has been made in the MTFP and as per all new policy, the Council would expect Government to assess the burden on Councils and compensate them accordingly.</p> <p>We await to see how this moves forward.</p>
21	<p>The Council has a range of <b>properties</b> which are being inspected to determine what reactive or planned repair work may be needed. This a core part of its work on Asset Management.</p> <p>The results of this work will be factored into future plans.</p>	<p>Revenue budgets have been adjusted for reactive repair work.</p>

## 1.4 Tackling the gap

- 1.4.1 One of the key principles of delivering services within the MTFP is “living within your means” i.e. not spending more than the resources available. Whilst the Council has a very good track record of spending within its allocated annual budget, the MTFP shows that from 21/22 and beyond the Council is likely to have a financial gap.
- 1.4.2 The Council has committed to producing an “emergency budget”. The purpose of this is to ensure that Council has options to consider should the future funding settlement confirm or worsen the expected gap.
- 1.4.3 The Council has started reviewing again all of its expenditure and income to identify possible options that it could consider when its position is clearer.

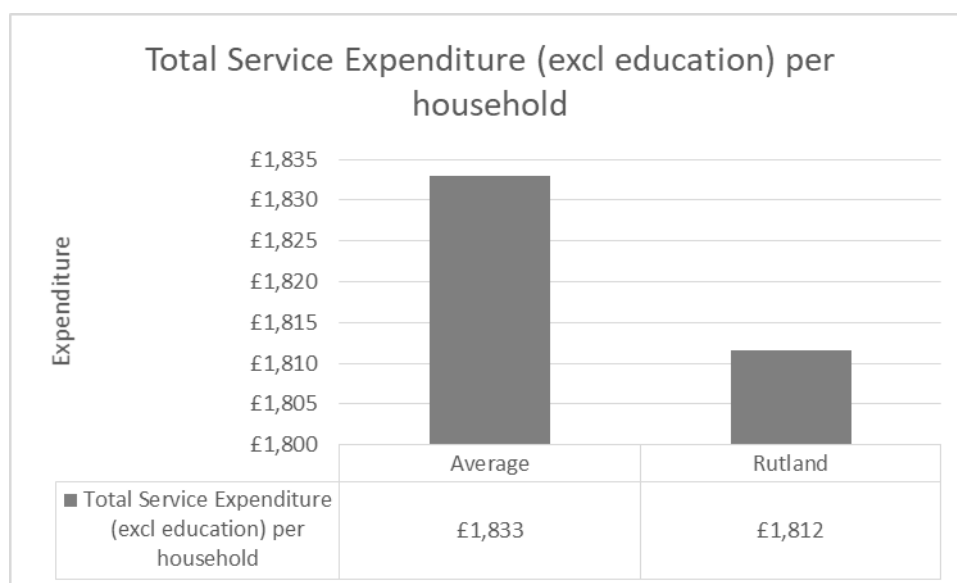
There are inevitably some challenges in doing this:

- Some services are statutory and therefore cannot be stopped or reduced (although they can be delivered differently);
- The Council has already made lots of savings (see 1.4.4) over the last 8 years which have been used to meet additional pressures and offset the loss of funding;
- The Council provides good Value for Money and is generally low cost (see 1.4.5);
- The Government is reviewing arrangements for borrowing which could make access to funds for investment purposes more difficult. This issue is covered in more detail in the Capital Investment Strategy paper.

1.4.4 Savings made since 2011/12 are shown below (these are a combination of recurring and one off savings):

<b>Year</b>	<b>Budget savings</b>
11/12	3,313,050
12/13	1,193,500
13/14	1,534,500
14/15	889,400
15/16	785,900
16/17	1,022,400
17/18	931,300
18/19	805,600
19/20	1,515,000
20/21	479,000

1.4.5 Each Council is required to submit returns to Government showing budget/expenditure data across different service areas. The latest returns for 19/20 budget data (these are the latest comparative information available) show that in overall terms the Council's cost are below average.



- 1.4.6 There are also a number of MTFP assumptions that are prudent in relation to tax base growth, government funding loss, investment income and demand for social care. In these areas, the Council will aim to outperform assumptions made but many are outside of the control of the Council.
- 1.4.7 In light of the above comments, the options being listed will include possible income generation options alongside reductions in the Council's service offer across a range of service areas. The Council will then review what action is required when it has greater clarity over the medium term financial position.

## 1.5 Reserves – the minimum level of reserves required

- 1.5.1 One of the reasons the Council has some time to address its position is because it has a healthy reserve level. General Fund reserves represent 29% of service expenditure (less education). This is high compared to other Councils indicating a good degree of financial management.

	<b>General Fund reserves as % of Service Exp<sup>2</sup></b>	<b>Earmarked reserves as % of Service Exp</b>	<b>Total</b>
Rutland	29%	15%	44%
Average Unitary	8%	30%	38%

- 1.5.2 These reserves can be called upon in the short term to balance the budget but this cannot be continued indefinitely. Reserves also help to cushion the impact of uneven cash flows, avoid unnecessary temporary borrowing and provide a contingency to cushion the impact of unexpected events or

<sup>2</sup> To enable comparisons, the Council has used Service Expenditure as defined in the Revenue returns (RO forms) submitted to Government by all Councils. Using our own local analysis, reserves represent 24% of our net budget.

emergencies.

1.5.3 The level of reserves is set to take account of:

- strategic, operational and financial risks (see Section 1.3);
- key financial assumptions underpinning the budget; and
- quality of the Council's financial management arrangements.

1.5.4 The Council's minimum reserves target is currently set at £2m. Presently, the Council's General Fund balances (and useable earmarked reserves) are above the minimum level. Alongside this balance the Council has c£4.5m in earmarked reserves (detailed in Appendix 7).

1.5.5 A review of the reserves position has been undertaken. **It is my view that General Fund reserves of between £2m and £3m are appropriate so I am recommending that the minimum reserve level is maintained at £2m.** This level is deemed adequate based on professional judgement and a risk assessment taking into account the following factors:

- a) despite a good savings track record, the Council has no formal agreed plans for beyond 20/21
- b) there are potential cost pressures which are only factored into plans but uncertainty remains; and
- c) future funding levels are unknown.

## **2 COUNCIL TAX**

### **2.1 Council tax – options**

2.1.1 The Government has lowered the general Council Tax referendum limit to 1.99% from 2.99% for 20/21. Rutland is also able to levy an Adult Social Care precept of an additional 2%.

2.1.2 The Council proposes to raise Council Tax by 1.99% and levy the Adult Social Care precept of 2%<sup>3</sup>. The rationale for this is straightforward:

- It avoids the Council making a substantial loss in 20/21;
- Failing to increase Council tax by the maximum amount leads to a c£260k minimum loss of income (for every 1% not raised compared to 3.99%) in 20/21 but also every subsequent year (so c£1.5m over 5 years);
- The Council cannot predict with any certainty the level of demand for services like social care/transport but it does know demand is likely to increase; and
- The increase in Government funding received is not sufficient to meet inflation and other cost pressures.

2.1.3 The table below gives shows the difference between the various options:

<b>Change from 19/20</b>	<b>Council tax rate</b>	<b>20/21 council tax revenue £m</b>	<b>Loss against maximum yield in 20/21</b>	<b>5 year loss</b>
3.99%	£1,773.21	£27.791m	N/A	N/A
2.99%	£1,756.16	£27.488m	£0.267m	£1.478m
1.99%	£1,739.11	£27.221m	£0.534m	£2.956m
0.99%	£1,722.06	£26.989m	£0.801m	£4.434m
0%	£1,705.18	£26.725m	£1.065m	£5.897m

2.1.4 Members should note that even with maximum Council Tax rises the Council still needs to find substantial savings. Not increasing Council Tax would make the position very difficult.

### **2.2 Collection Fund – the estimated balance for 2019/20**

2.2.1 The Council, as a billing authority, is required to keep a special fund, known as the Collection Fund. If a surplus or deficit remains in the Collection Fund at the year-end it is subsequently distributed to, or borne by the billing authority (in this situation the Council) and the preceptors (Police and Fire

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<sup>3</sup> For the purposes of the table in 2.1.3, reference to Council Tax and rates includes the Adult Social Care precept



Authorities). Billing authorities are required to estimate the expected Collection Fund balance for the year to 31 March in order that the sum can be taken into account by billing authorities and preceptors in calculating the amounts of Council Tax for the coming year. The difference between the estimate at 15 January, and the actual position at 31 March will be taken into account in the following financial year.

- 2.2.2 The estimated financial position on the Collection Fund at 31 March 2020 is shown below.

Estimated Surplus at 31 March 2020	£126,000
<b>Share of Surplus</b>	
Rutland County Council	£108,000
Leicestershire Police Authority	£14,000
Leicestershire Fire Service	£4,000

- 2.2.3 The surplus represents 0.3% of the amount collected. Regulations provide for the Council's share of the estimated surplus to be transferred to the General Fund in 21/22.

### 3 REVENUE BUDGET EXPLAINED

#### 3.1 Overview

- 3.1.1 The MTFP always includes provisional budgets for future years. The annual detailed budget work (explained in 3.2) updates that budget with latest information as shown in the table below:

		<b>Draft budget 20/21 £000</b>
3.1.2	People	19,109
3.1.2	Places	13,091
3.1.2	Resources	6,772
<i>A</i>	<i>Sub-Total Directorate budgets</i>	38,972
3.1.3	Pay Inflation contingency	513
3.1.4	Social care contingency	242
<i>B</i>	<i>Sub-Total Contingencies &amp; Corporate Savings</i>	755
	<b>Net cost of services</b>	<b>39,727</b>
3.1.5	Appropriations	(2,345)
3.1.6	Capital financing costs	1,798
3.1.7	Interest income	(300)
	<i>Sub-Total Capital</i>	(847)
	<b>Total Net Spending</b>	<b>38,880</b>
	<b>Funding</b>	<b>(38,578)</b>
3.1.8	Contribution from Earmarked Reserves	(292)
	<i>Sub-Total transfer to/(use) of reserves</i>	(292)
	<b>Use of General Fund reserves</b>	<b>10</b>

- 3.1.2 The **Directorate budgets** are detailed by functional areas in Appendices 4 to 6. The budgets include savings and pressures. The budget is also represented in diagram form in **Appendix 2**.<sup>4</sup>
- 3.1.3 The budget includes a contingency for **pay** changes (pay inflation, adjustment, re-grades, staff opting in to pension fund etc).
- 3.1.4 The budget includes a small contingency for £242k for social care funded in part by a £135k winter pressures grant. This is the same approach as per the prior and reflects the fact that there is no growth built into the budget for demographic growth. An element of this contingency is for the Better Care Fund which will be reallocated when plans are finalised and approved by NHS England in the new year.
- 3.1.5 The **appropriations** figure represents adjustments the Council is required to make to its revenue position that are specified by statutory provisions and any other minor adjustments. It includes the reversal of the annual charge for

<sup>4</sup> Appendix 2 summarises spend in a way that is meaningful for the public. This is different to the way in which the management accounts are presented for internal monitoring purposes.

depreciation on the Council's assets which is shown in Directorate budgets.

- 3.1.6 **Capital financing** costs of £1.798m comprise interest costs on loans of £1.033m and Minimum Revenue Provision (MRP) costs of £765k. MRP is a statutory charge to the revenue account which covers the repayment of debt (see 5.3).
- 3.1.7 **Interest income** reflects interest earned on investments. This has increased from 19/20 as the Council has no plans at present to make capital investments and hence greater balances to invest.
- 3.1.8 **Earmarked reserves** are used as a means of building up funds to meet known or predicted liabilities. Their establishment and use is subject to Council approval and movements are reported as part of the quarterly financial monitoring reports. The 20/21 budget uses over £292k of earmarked reserves – mainly £101k of Public health reserves and over £153k from Invest to Save for one off items (referred to in 3.2 below). A list of earmarked reserves is given in Appendix 7.

### **3.2 The budget process – the development of the revenue budget**

- 3.2.1 The starting point is the restated 2019/20 budget which is updated for any approved changes and adjustments as reported in Quarterly Finance reports. Minor adjustments are made to individual budgets as part of the normal annual budget process. These include updating for the pay settlement, inflation, adjustments and removing one off budgets. Any savings and pressures are also factored in.
- 3.2.2 The Council's restated budget for 19/20 is £36.4m (this is explained in Appendix 9). The budget for 20/21 builds on the 19/20 budget and includes the following changes:
- Demand pressures totalling £1.6m where the Council has a duty to respond or where factors are uncontrollable such as a change in funding. Key pressures include:
    - i) The loss of £200k of health income where care packages are being reviewed rigorously by the NHS and more care is deemed to fall under adult social care with a greater cost therefore falling on the Council;
    - ii) An increased number of older people in residential care (200k) and mental health cases;
    - iii) An increase in the number of fostering cases (£300k);
    - iv) A change in Unaccompanied Asylum Seeker funding arrangements which has resulted in a loss of £65k;
    - v) A permanent increase in SEND staffing to cope with the increased caseload of children with high needs (£100k). The increased need has also had a £170k impact on the transport budget;

vi) Anticipated increase in legal costs of c£140k principally due to workloads in respect of social care and special educational needs;

vii) Anticipated one cost of c£190k one off for producing and finalising the Local Plan including any Inspection related costs.

- Demand pressures are offset by savings of c£479k. Notable savings come from a reduction in printing of £20k, restructure in Children's Services and other staff savings (£97k), dog warden contract (£25k), commercial property income (£58k), and the funding of some highways costs (£112k) from capital resources rather than revenue.
- Inflation pressures of £1.4m account for general inflation on good/services, pay inflation of 3% and a 1% increase in pension costs and other pay adjustments.
- The Council is making one off investment in some areas, including:
  - i) Contracts (£150k) – as a number of significant contracts are due for renewal (e.g. waste management) the Council will be investing in expertise to help get the best possible deal for Rutland;
  - ii) Customer Services (£100k) – the Council has set aside funds to support a digital first approach to transforming customer services and the launch of MyAccount;
  - iii) Public health £101k – the Council is investing its ring fenced reserves to promote healthier living as part of its prevention work;
  - iv) Setting aside £380k (of which £135k is funded by a Government grant) to meet the additional costs of social care demand and in particular winter pressures.

3.2.3 The 20/21 budget is therefore £38.8m.

### 3.3 Savings

3.3.1 The 2019/20 budget includes total savings c£479m of which all except £29k are recurring. Savings can be categorised as follows:

Area	Definition	£m
Staffing efficiencies	Reduction in staffing costs	0.051
Efficiencies	Delivering the same for less from alternative ways of working	0.129
Income generation	Additional income generated from existing or new fees and charges	0.197

Budget realignment	Budget reductions based on previous year expenditure trends	0.102
		<b>0.479m</b>

### **3.4 Pressures – additional costs**

- 3.4.1 Service pressures may arise from increased demand from service users, legislative changes that place additional duties or responsibilities on the Council or from withdrawn funding which means the General Fund has to pay for services previously funded through other income e.g. grant.
- 3.4.2 Alongside service pressures, the Council may incur additional costs as a means of investing in services as set out in 3.2.2.
- 3.4.3 The 2019/20 budget includes total new spending of c£2.396m of which £1.6m pertains to demand and £745k is about investing in services (using primarily grants and earmarked reserves which means that there is no pressure on the overall General Fund – see also 3.2.2).

### **3.5 Reserves and Estimates - robustness**

- 3.5.1 Best practice requires me to identify any risks associated with the budget, and section 25 of the Local Government Act 2003 requires me to report on the adequacy of reserves and the robustness of estimates.
- 3.5.2 The most substantial risks are in demand led budgets and in particular social care. In the longer term, the risks to the budget strategy arise from the risks detailed in 1.3 but can be summarised as follows.
- non-identification and delivery of future savings;
  - unidentified and uncontrollable pressures; and
  - loss of future resources, particularly in respect of changes to business rates or government funding.
- 3.5.3 A further risk is economic downturn, nationally or locally. This could result in further significant reductions in funding, falling business rate income, and increased cost of Council Tax reductions for tax payers on low incomes. It could also lead to a growing need for Council services and an increase in bad debts.
- 3.5.4 It is my view that the Council's financial resilience is strong and the above risks can be managed in the short term, in particular:
- The Council has a good level of earmarked and General Fund reserves (see para 1.5);

- The Council is largely self-sufficient and its high dependency on Council tax leaves it less vulnerable to further government reductions;
- The level of reserves depletion over the last few years has been low; and
- The Council is effectively managing demand as far as it can in adult and children's social care.

3.5.5 Subject to the above comments, I believe the Council's general and earmarked reserves to be adequate in the short term. I also believe estimates made in preparing the budget are robust based on information available.

### **3.6 Equalities – the impact on particular groups**

3.6.1 In the exercise of its functions, the Council must have due regard to the Council's duty to eliminate discrimination, to advance equality of opportunity for protected groups and to foster good relations between protected groups and others.

3.6.2 The Council has completed Equalities Impact Assessment (EIA) screening for all savings proposals and for the proposed tax increase. There are no proposals or decisions on specific courses of action that could have an impact on different groups of people and therefore full EIAs are not required. Some of the analysis relating to the Council tax increase is shown below:

<b>Proposal</b>
A Band D Council Tax increase of 3.99%, including the Adult Social Care Precept of 2% taking Band D Council Tax from £1,705.18 to £1,773.21 (Rutland County Council only). This proposal is linked to one aspect of local government funding where the Council has some discretion to raise additional funds by increases to Council Tax. However there are Council Tax rules in place that limit the extent of any Council Tax increases before a referendum is required, the limit for 2020/21 is 3.99%.
<b>Initial impact</b>
<p>This increase will be applied to all bands of council tax. This will impact on all residents who are eligible to pay Council Tax. The average increase cost per week on a Band D property is £1.30.</p> <p>Since Council Tax is applicable to all properties it is not considered that the increase targets any one particular group; rather it is an increase that is applied across the board. At the same time because the increase is applied to all properties it is not possible to exempt any particular groups. By increasing Council tax, the Council is able to prevent further reductions in services to local residents and in so doing continue can mitigate adverse impacts facing individual households.</p>

<b>Actions take to mitigate impact</b>
<p>The risk is mitigated through various support offered: Local Council Tax Support, a Discretionary Fund and Advice.</p> <p>The Council operates a local council tax support scheme which offers up to 75% discount for those on low incomes – those that are eligible for the full discount will see an increase of just 33p per week.</p> <p>On top of the 75% discount, the Council continues to offer further support to those who can demonstrate financial hardship. It has funds of £20k set aside and is prepared to increase this amount should the need arise.</p> <p>The Council also provides some budgeting and financial advice and has a contract with Citizens Advice Rutland to provide more specialist support if needed.</p> <p>The Council will be seeking views on the Council tax increase proposal as part of its budget.</p>

## 4 CAPITAL PROGRAMME

### 4.1 Overall Programme – existing and new projects

4.1.1 The Capital Programme is developed around specific projects. The programme comprises four strands:

- Approved projects: capital projects already approved that will span across more than one financial year (any projects already approved which are not yet completed will continue into 2020/21)
- Ring Fenced Grants: These projects will automatically be included in the existing capital programme.(e.g. disabled facilities grants);
- Non Ring Fenced Grants: New projects to be approved in the budget or in-year; and
- Funding available but not yet allocated.

4.1.2 The table below is an overview of the position for 2020/21. Projects that make up the total £26.585m are listed in Appendix 8.

Capital Programme	Budget Approved to Date	New Capital Projects	Budget 2020/21
	£000	£000	£000
Strategic Aims and Priorities	8,059	249	8,308
Commercialisation	10,310	0	10,310
Asset Management Requirements	7,967	0	7,967
<b>Total Projects</b>	<b>26,336</b>	<b>249</b>	<b>26,585</b>
<b>Financed By</b>			
Grant	(13,049)	(249)	(13,298)
Prudential Borrowing	(11,469)	0	(11,469)
Capital Receipts	(391)	0	(391)
RCCO	(552)	0	(552)
Developers Contributions	(875)	0	(875)
<b>Total Budget Funding</b>	<b>(26,336)</b>	<b>(249)</b>	<b>(26,585)</b>

### 4.2 Approved projects – approved projects continuing into 2020/21

4.2.1 Some of the capital projects will span across more than one financial year. Any projects already approved which are not yet completed will continue into 2020/21. The estimated spend in 2020/21 will depend primarily on the outturn (the amount spent) for 2019/20.



#### **4.3 Approved projects – projects delivered with ring fenced funding**

- 4.3.1 The Council receives Devolved Formula Capital funds which is passported to maintained schools to help them support the capital needs of their assets. Schools will decide what projects to fund.
- 4.3.2 For the Disabled Facilities grant which is part of the Better Care Fund, the full allocation is used to help residents remain in their home and be independent.

#### **4.4 Projects in pipeline – to be submitted for approval in due course**

- 4.4.1 In a number of areas work is ongoing and proposals for new projects being developed. In these areas, Cabinet reports are expected in 2020/21. Funding for any future projects will be funded in full or in part from the unallocated funding (set out in 4.5 below). Areas under review include:
- Highways
  - School Places
  - Oakham Enterprise Park
  - Schools Maintenance

## 4.5 Unallocated Funding (funding available) and potential future projects

- 4.5.1 Currently the Council is holding capital funds that have not yet been committed to a project. A breakdown of the funds held is shown in the table below. Any future capital projects highlighted in 4.4.1 will be funded from the unallocated funding below.

Unallocated Funding	Index	Estimated Closing Balance 31/03/20	Grant Awarded/ Receipts expected 2020/21	Capital funding for 2020/21 ring fenced budget	Capital funding for 2020/21 New Capital Budget (Approval Required)	Estimated Closing Balance 2020/21
		£000	£000	£000	£000	£000
Devolved Formula Capital		(7)	(11)	11	0	(7)
Better Care Fund (BCF)		0	(238)	238	0	0
Special Funding provision (SEND)		(167)	0	0	0	(167)
Adult Social Care – Misc	4.5.2	(219)	0	0	0	(219)
Highways – Misc	4.5.2	(78)	0	0	0	(78)
Misc Grant	4.5.2	(38)	0	0	0	(38)
Developers Contribution	4.5.3	(7,394)	(924)	0	0	(8,318)
Schools Capital Maintenance	4.5.4	(1,031)	(154)	0	0	(1,185)
Highways Incentive Funding	4.5.5	0	(320)	0	0	(320)
Pothole Action Funding	4.5.5	(102)	0	0	0	(102)
Integrated Transport	4.5.6	(519)	(458)	0	0	(977)
Highways Capital Maintenance	4.5.5	0	(1,535)	0	0	(1,535)
Capital Receipts		(1,213)	(50)	0	0	(1,263)
<b>Estimated Unallocated Funding</b>		<b>(10,768)</b>	<b>(3,691)</b>	<b>249</b>	<b>0</b>	<b>(14,209)</b>

- 4.5.2 Misc Grant Funding – Unallocated funding (£335k) representing various balances from historic funding that the council no longer receives. This funding is not ring fenced.
- 4.5.3 Developers Contribution – Unallocated funding (£8.318) representing the expected balance as below:
- Section 106/ CIL – Unallocated funding (£5.106m) representing the expected holding balance. Projects will be developed to deal with infrastructure demands from new/existing developments. Expenditure must be spent on the specific details within the individual agreements or on items within the CIL123 infrastructure list. The CIL 123 list will be reviewed to reflect the councils new Local Plan.
  - Oakham North Agreement – Unallocated funding (£3.213m) representing the expected holding balance. The Council has flexibility on how this funding is used to support the development.
- 4.5.4 Schools Capital Maintenance – Unallocated funding (£1.185m) is ring-fenced and should be allocated to schools and children's centres based on the provision of sufficient numbers of school places and surplus place removal, also the repair, improvement and replacement of existing school buildings.
- 4.5.5 Highway Capital Maintenance – Unallocated grant funding (£1.956m) is being held to fund future highways projects which is not ring-fenced however, future allocations would be affected if the funding was not spent on improving transport infrastructure within the County.
- 4.5.6 Integrated Transport (£977m) - The integrated transport block funding provides support for small transport capital improvement schemes. A number of schemes have already been agreed.

## **5 TREASURY MANAGEMENT**

### **5.1 Overview**

- 5.1.1 At the time of approving the budget, the Council will approve the Treasury Management Strategy and Capital Investment Strategy. The implications of these strategies (capital plans, investment returns and borrowing changes) are reflected in the draft budget.

### **5.2 Prudential indicators – indicators to be approved**

- 5.2.1 Local authority capital expenditure is based on a system of self-regulation, based upon a code of practice (the “prudential code”).
- 5.2.2 Council complies with the code of practice, which requires us to agree a set of indicators to demonstrate that any borrowing is affordable, sustainable and prudent. To comply with the code, the Council must approve the indicators at the same time as it agrees the budget. The indicators including the limit on total borrowing are approved through the Treasury Management Strategy, taken separately to this report.

### **5.3 Minimum Revenue provision – method of calculation**

- 5.3.1 By law, the Council is required to charge to its budget each year an amount for the repayment of debt. This is known as “minimum revenue provision” (MRP).
- 5.3.2 MHCLG Guidance issued requires full Council to approve an MRP Statement in advance of each year. Council will be asked to approve the MRP Statement as part of the Treasury Management Strategy.

## **6 SCHOOL FUNDING**

### **6.1 Overview – How school funding works**

- 6.1.1 Schools are funded from ring fenced grants, the most notable of which is the Dedicated Schools Grant (DSG). This funding cannot be used for any other Council function, and essentially schools operate within their own fund with any under or over expenditure being taken forward into future years.
- 6.1.2 The Government has announced indicative allocations for the Schools, High Needs and Central Schools Service blocks for 2020/21.
- 6.1.3 As in previous years, the Council is able to transfer 0.5% of the Schools block allocation to the High Needs block with the agreement of the Schools Forum. Due to the pressures being experienced by the High Needs budget, Forum has agreed to this transfer for 2020/21. This transfer will equate to approximately £0.122m being transferred between blocks
- 6.1.4 A local authority must engage in open and transparent consultation with all maintained schools and academies in the area, as well as with its schools forum about any proposed changes to the local funding formula including the method, principles and rules adopted. Whilst consultation must take place, the local authority is responsible for making the final decisions on the formula. In reality, the options are limited.
- 6.1.5 Schools have reserves they can call on, and the Council will work closely with any maintained school that is experiencing financial difficulty to draw up a recovery plan.

### **6.2 Allocations – funding received and allocated**

#### **DSG**

- 6.2.1 The Schools Block allocation for Rutland is £25.260m compared to 2019/20 of £23.453m (an increase of £1.807m) equating to an increase of 7.7%. This figure is calculated using the October 2019 school census data. The National Funding Formula sets the Primary and Secondary units of funding for each authority based on the previous years census data and these are used to calculate the funding received by the authority for the following year.
- 6.2.2 The two units of funding for Rutland County Council for 2020/21 have been set as follows:
  - Primary Unit of Funding is £4,047.47 (£3,819.86 in 2019/20)
  - Secondary Unit of Funding is £5,000.96 (£4,827.39 in 2019/20)
- 6.2.3 The High Needs block allocation for 2020/21 is £4.248m compared to 2019/20 of £3.825m (an increase of £0.423m) equating to an increase of 11.5%. This funding has been adjusted for the latest information on the numbers of pupils being transferred between authorities.
- 6.2.4 The current level of spending on high needs is projected to be £4.3m in 2019/20, and continues to rise as reported in the Q2 Finance Report (170/2019), and

therefore the allocation for 2020/21 is likely to be insufficient to cover costs next year. The transfer of 0.5% from the schools block (approximately £0.122m) is for one year only and will automatically transfer back to the schools block the following year.

- 6.2.5 The Council is likely to be carrying a DSG deficit of c£700k by the end of March 2020 and will need to produce a Recovery Plan for the DfE which addresses this position by June 2020. The Government has made it clear that the deficit is not the Council's to underwrite but has not explained how the deficit will be cleared if it cannot be recovered. Recouping this deficit will be a significant challenge without additional funding and may take some years to recover if it can be recovered at all.
- 6.2.6 The Early Years block allocation for 2020/21 has been provisionally set as £1.874m based on an increase rate for 2 year old funding of £5.28 (£5.20 2019/20) and funding for 3 and 4 year olds of £4.48 (£4.48 2019/20). The individual rates paid over to nurseries has not yet been agreed, but the Council are looking to increase the current rate of £4.25.
- 6.2.7 The Central School Services block allocation is £0.166m for 2020/21 a slight increase (£0.003m) from the allocation in 2019/20. The Central School Services block pays for the following services:
- Admissions Services;
  - Nationally agreed copyright licence fees; and
  - The local authority statutory responsibilities (previously covered by the Education Services Grant) e.g. be strategic lead for education of children and young people.

#### **Pupil Premium Grant (PPG)**

- 6.2.8 The DfE have not yet announced the level of Pupil Premiums for 2020/21, these are expected shortly. The rates for 2019/20 were as follows:
- Primary disadvantaged pupil premium is £1,320 per pupil;
  - Secondary disadvantaged pupil premium is £935 per pupil;
  - Children Looked after pupil premium is expected to increase to £2,300 per pupil (£1,900 last year) as a result of the DfE removing this factor from the School Funding Formula;
  - Children no longer looked after due to adoption, special guardianship order etc is £2,300 per pupil; and
  - Service children pupil premium is £300 per pupil.

#### **Universal Infant Free School Meals (UFSM)**

- 6.2.9 From September 2014 every infant (key stage1) pupil is entitled to a free school meal. This is funded by an additional specific grant amounting to £2.30 per pupil. The funding for 2020/21 is yet to be announced.

**6.2.10 A large print version of this document is available on request**



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