‘A Item’

	REPORT TO CABINET TO BE HELD ON 12 FEBRUARY 2019	
	Key Decision	**YES**
	Forward Plan Ref No	
Corporate Priority: Meets all Corporate Priorities	**Cabinet Portfolio Holder**	**Cllr Helen Mallory**

REPORT OF: DIRECTOR (NE) – 19/44

WARDS AFFECTED: ALL

SUBJECT: DRAFT FINANCIAL STRATEGY 2019 – 2029

RECOMMENDATION (S):

That Cabinet:

(i) Note the budget consultation feedback received to date and the updated revenue budget proposals included within the Financial Strategy and in particular:

a. Endorse the inclusion of a one-off investment of £80k within the proposals to support the Council’s target to commit to achieve carbon neutrality by 2030, and work with governments and partners to determine and implement best practice methods to limit climate change and global warming to within acceptable parameters;

b. Recommend that following the local elections in May the Leader adds the responsibility for climate change and carbon neutrality to a specified member portfolio;

c. Nominate a separate member champion(s) to support officers in delivering the Council’s climate change agenda following the elections in May;

d. Endorse that the Director (NE) and Operations, Transport and Countryside Manager be allocated lead officer responsibility within the Council to champion the Council’s climate change commitments and to produce and deliver a corporate action plan to facilitate the achievement of the required objectives, in conjunction with the relevant portfolio holder and member champion(s);

e. Endorse the inclusion of a one-off investment of £30k for the Cinder Track (as detailed in Section 3.4);

(ii) Approve those fees and charges administered by the Council's Environment and Regulation service that require Cabinet approval (as itemised in Section 3.5), which will come into effect on 1 April 2019;

(iii) Approve that in future years the authority to approve all Environmental and Regulation service fees and charges be delegated to the Portfolio Holder for Public Health and Housing;

(iv) Note the updated Treasury Management Strategy and Investment Strategy for 2019/20, which now incorporates the Commercial Property Investment Strategy, as approved by Council in May 2018;

(v) Recommend to Council:

a. The approval of the Financial Strategy, specifically:

i. the Revenue Budget for 2019/20;
ii. a Council Tax increase of £6.82 for a Band D property (2.99%);
iii. the Capital Budget and proposed new schemes for 2019/20;
iv. the optimum levels of reserves for 2019/20;
v. the Treasury Management Strategy and Prudential Indicators;
vi. the Council's Pay Policy Statement contained, as required under Section 38 (1) of the Localism Act 2011;

b. The approval of the changes to the Discretionary Business Rates Relief Policy (as detailed in Section 3.10);

c. That the authority to make changes to the Discretionary Business Rates Relief Policy be in future delegated to the Director (NE) in conjunction with the Portfolio Holder for Commercial Investment.

REASON FOR RECOMMENDATION(S):

Full Council must approve the 2019/20 budget and associated Council Tax level and fees and charges, which are incorporated within the Financial Strategy, at its meeting on 1 March 2019.

The authority to approve fees and charges for scrap metal license fees must currently be approved by Cabinet.

Changes to discretionary business rate reliefs currently require Council approval, however as they are largely fully funded, government led initiatives the Council's ability to affect the policies is limited. The delegation of approval of the reliefs to officer level will allow the reliefs to be adopted more quickly, which in turn benefits local business rate payers and also provides more time to apply the reliefs to business rate accounts prior to issuing of business rate bills at the start of a financial year.

HIGHLIGHTED RISKS:

That the Council does not set a robust budget in 2019/20 or over the medium to long term.

1. INTRODUCTION

1.1 The Council's Financial Strategy comprises a 5-year revenue plan and a 10-year capital plan. These plans are reviewed annually and the Council's revised Strategy for 2019-2029 will be presented to Full Council for approval in March.

1.2 The key proposals for the revenue and capital budget were presented to Cabinet at its meeting in December 2018. These included the proposed revenue budget including investment in priority areas, efficiency and other savings proposals, and associated Council Tax increases.

1.3 Cabinet were asked to agree that officers enter into a period of consultation on the budget proposals, in advance of the Financial Strategy being presented to Full Council in March 2019.

1.4 The purpose of this report is to:

- Set out the draft Financial Strategy; which includes the proposed budget and Council Tax levels for 2019/20 as endorsed by Cabinet in December, the Treasury Management Strategy, Prudential Indicators and Pay Policy;

- Summarise any changes made to the draft revenue budget proposals since they were presented to Cabinet in January; and

- Summarise the feedback received to date on the draft budget proposals in the period of consultation;

2. CORPORATE AIMS/PRIORITIES AND THE COMMUNITY PLAN

2.1 The proposals set out in this report impact on all the Council's Corporate Aims and Priorities.

3. BACKGROUND AND ISSUES

3.1 THE FINANCIAL STRATEGY

3.1.1 The draft Financial Strategy is attached at **Appendix B** to this report. **A completed, finalised version of this Strategy will be presented to Full Council for approval in March; however, the content in the final version will not change significantly.**

3.1.2 The Strategy incorporates the draft revenue budget proposals as endorsed by Cabinet at its January meeting, along with the capital budget proposals, Treasury Management Policy, Reserves and Balances recommendations, Prudential Indicators and Pay Policy for 2019/20.

3.2 REVENUE BUDGET PROPOSALS

3.2.1 The following changes have been made to the revenue budget proposals appendix since they were reported to Cabinet in January:

- Some minor changes have been made to a small number of growth areas and savings projections to reflect more up to date and accurate information;

- The 2019/20 funding projections have been updated to reflect the Final Local Government Finance Settlement (LGFS) for 2019/20, which was announced on 29 January 2019;

- The original proposals incorporated a £300k planned draw from reserves in 2019/20, but showed that the savings identified in that year exceeded the amounts required to balance the budget. The £300k draw from reserves has now been removed from the 2019/20 year and has been deferred to 2020/21 to provide a contingency against higher than expected funding cuts that may arise from the Fair Funding Review;

- The draft budget proposals stated that the 2019/20 Collection Fund surplus (£165k) would be earmarked for investment in the capital programme. This sum has now been committed to fund one-off expenditure in the 2019/20 revenue budget proposals;

- The following additional areas of one-off spend have been added for inclusion in the 2019/20 budget:
    - £38k for increases in recycling processing costs
    - £70k for increases in temporary housing costs
    - £80k to address climate change – see section 3.3
    - £30k for investment in the Cinder Track –see section 3.4
    - £5k for investment in the capital strategy

- The retained business rates growth figures have been updated for 2019/20, based on the NNDR1 form which was submitted on 31 January 2019. Under the 50% scheme, and after allowing for levy payments, the Council's share of retained business rates in 2019/20 is projected to be £1.208m higher than the Council's business rates funding baseline, assuming that appeals will be settled in line with a 4.7% national average figure that the DCLG incorporated in the localised business rates scheme figures. £1.139m of this additional funding has been committed to balance the revenue budget and the remaining surplus has been earmarked to provide a contingency to mitigate against higher than anticipated levels of successful business rates appeals;

- The budget proposals now set out that the bid to establish a North and West Yorkshire Business Rates Pool to pilot 75% business rates retention scheme in 2019/20 was successful. Original modelling projections showed that the Council would receive a dividend of approximately £900k from the pooling arrangements, although these figures are currently being updated based on more recent projections. In addition a proportion of surpluses (currently estimated at £6m) will be top-sliced to create a fund to invest in regional and local projects that create further growth across the pool area and the Council will be able to make bids against these funds. The receipt of the dividend is predicated upon each authority within the pool achieving their business rates targets. As per previous financial years the Council's potential dividends from pooling have not yet been committed in the budget, and it is proposed that they be earmarked for the Capital Investment Strategy.

3.3 **COUNCIL MOTION ON CLIMATE CHANGE**

3.3.1 On 7 January Councillor Cluer proposed, and Councillor Vesey seconded, a Full Council motion to commit to taking action to achieve carbon neutrality. The motion recommended that the Council:

1. Declare a 'Climate Emergency;
2. Pledge to do everything within the Council's power to make the Borough of Scarborough carbon neutral by 2030;
3. Call on Westminster to provide the powers and resources to make the 2030 target possible;
4. Work with other governments (both within the UK and internationally) to determine and implement best practice methods to limit Global Warming to less than 1.5°C;
5. Continue to work with partners across the borough and region to deliver this new goal through all relevant strategies and plans;
6. Submit a bid as part of the Council's budget setting process for an additional £80k to fund a 'Sustainability' Officer Post for a two year period to champion the scoping and delivery of the Borough Council's Carbon Neutral 2030 commitment.

3.3.2 The background information to the motion identified that the irreversible effects of climate change are being felt across the world and current CO_2 levels far exceed the levels deemed to be safe for humanity. In order to reduce the chance of runaway Global Warming it is considered imperative that CO_2 emissions are reduced from their current 6.5 tonnes per person per year to less than 2 tonnes as soon as possible. It is recognised that individuals cannot be expected to make this reduction on their own and that society needs to change its laws, taxation, infrastructure etc. to make low carbon living easier and the new norm.

3.3.3 The world is on track to overshoot the Paris Agreement's 1.5°C limit before 2050. The IPCC's Special Report on Global Warming of 1.5°C, published in the autumn of 2018, describes the enormous harm that a 2°C rise is likely to cause compared to a 1.5°C rise, and told us that limiting Global Warming to 1.5°C may still be possible with ambitious action from national and sub-national authorities, civil society, the private sector, indigenous peoples and local communities. City Councils around the world are responding to this by declaring a 'Climate Emergency' and committing resources to address this emergency.

3.3.4 Although the Council has shown foresight when it comes to addressing the issue of Climate Breakdown the current plans and actions are considered to be insufficient. On that basis Full Council carried the motion proposed by Councillor Cluer and agreed that the monies to support the motion (£80k) should be committed now, however some concerns were raised as to whether the creation of a sustainability officer post should be agreed prior to a robust plan being in place.

3.3.5 Following the January Council decision officers have met with Councillor Mallory and Councillor Cluer to discuss the most appropriate next steps in terms of taking forward the motion recommendations. At that meeting it was agreed that officers be tasked with producing and delivering an action plan to address climate change and carbon neutrality at a corporate level. The Council's Operations, Transport and Countryside Manager is passionate about this area and has agreed to lead on the production of this action plan under the direction of Director (NE), and has committed to an 8 month timescale for the production of a final document. It was agreed at the meeting that, at this stage, the required actions can be delivered within existing resources and without the need for a dedicated sustainability post, however the need for such a post may be reviewed once the final scope of the proposed actions are known. An £80k budget will be earmarked to support the Council's commitment to this area.

3.3.6 Given the Council's support of the motion it is considered appropriate that responsibility for climate change be added to a specified member portfolio following the local elections in May and that a separate member champion(s) be selected by Cabinet to support officers in producing and delivering the above action plan. All of the above proposals are endorsed by Councillor Mallory and Councillor Cluer.

3.4 CINDER TRACK

3.4.1 In January a report was presented to Cabinet covering the findings and recommendations of an Overview and Scrutiny Task Group Review of the Cinder Track. The work of the task group was endorsed by the Overview and Scrutiny Board on 5 December 2018 (report ref 18/280) and by Cabinet in January.

3.4.2 In response to the report Cabinet resolved to:

1. Approve a draft Restoration Plan for the Cinder Track;
2. Endorse a bid for mainstream budget provision of £70k pa for the future maintenance of the Cinder Track as part of the Council's Financial Strategy and Revenue Budget for approval to full Council;
3. Endorse a bid for the allocation of £20k to update the ecological survey of the Cinder Track as part of the Council's Financial Strategy and Revenue Budget for approval to full Council;
4. Instruct officers to submit external capital funding applications as appropriate to support the implementation of the Restoration Plan and to ensure the Cinder Track remains sustainable for the future.

3.4.3 Following the Cabinet meeting officers met with the Chair of the Group Cllr Hazel Lynskey to discuss the proposals and budget funding bids. At that meeting it was agreed that the more pressing funding requirements for the 2019/20 budget are the £20k required to update ecological surveys and a £10k maintenance budget, identified by the Operations, Transport and Countryside Manager, to undertake essential maintenance works on the Track.

3.4.4 The £70k bid for ongoing maintenance requirements will be included for consideration in future year budgets alongside a holistic, long term plan for the Track in terms of the capital funding applications, alternative funding models engaging the voluntary and community sector and income generation opportunities, which were all identified within the Task Group's findings. In turn the Council's £70k funding may help attract or increase external funding for the Track by offering it as match funding against capital or revenue grant funding applications. These proposals are endorsed by Cllr Lynskey.

3.5 FEES AND CHARGES

3.5.1 In most instances the responsibility for approving fees and charges has been delegated to officers or portfolio holders, and any anticipated variations in income arising from amended fees and charges are reflected in the Council's revenue budget proposals each year. The responsibility for approving the fees and charges for the Council's Environment and Regulation service have not yet been delegated and largely sit with Council, with the exception of locally set scrap metal licences, which Cabinet is required to approve.

3.5.2 The table below sets out the current fees for scrap metal licenses and those proposed for the 2019/20 financial year. Cabinet are recommended to approve the proposed fee increases, which will take effect from 1 April 2019.

	Current Fees	**Proposed Fees**
Scrap metal dealers site	£500	£515
Variation of licence - dealers only	£347	£355
Scrap metal collectors	£151	£155
Minor Amendments to licence - dealers and collectors	£28	£29

3.5.3 The remaining Environmental and Regulation service fees and charges; which include cemeteries and crematorium fees, licensing, and commercial regulation will be presented directly to Council for approval alongside the budget setting report in March 2019.

3.5.4 Cabinet are recommended to approve that in future years the authority to approve all Environmental and Regulation service fees and charges be delegated to the Portfolio Holder for Public Health and Housing.

3.6 CAPITAL BUDGET

3.6.1 It is recognised that the Council has delivered an extremely ambitious regeneration programme in recent years and, as a result, has benefited from increased funding from the localised business rates scheme. The revenue budget proposals establish that the Council wishes to continue with its strategy of prioritising and investing in economic growth and that this will play an integral part in the Council's budget strategy going forward. In addition the Council has approved a £30m fund to take forward a commercial investment strategy, which will generate financial returns to support the revenue budget. This fund is allocated and governed in accordance with the Commercial Investment Strategy but will continue to be managed via the overall capital investment strategy.

3.6.2 In order to ensure that the Council's capital resources are not overcommitted over the longer term period, investment in economic growth must be considered alongside the requirements to fund essential maintenance and infrastructure backlog works on the Council's existing asset portfolio. An exercise is currently being undertaken to obtain up to date condition and infrastructure surveys for all assets owned and managed by the Council. The information from this exercise will be used to prioritise future maintenance expenditure and asset holdings and allow a detailed, long term plan of asset repairs, maintenance and sales to be established.

3.6.3 A number of funding sources have not yet been committed within the Council's budget proposals and are earmarked to develop a robust, long term capital investment strategy. The Strategy will integrate with the revenue budget projections as well as the Property Asset Management Plan, maintenance and infrastructure requirements, the Commercial Investment Strategy and the Priority Projects Plan.

3.6.4 The establishment of a more robust capital investment strategy should ensure that capital resources are utilised in a planned and structured way and provide funding to take forward priority schemes that will deliver the Council's longer term strategic priorities and objectives. It may also result in the achievement of revenue budget savings through areas such as reductions in asset maintenance costs and reductions in borrowing costs.

3.6.5 The Capital Strategy will be subject to further reports to Members during 2019. The capital additions proposed for inclusion within the draft 2019 Financial Strategy have been restricted to the cost of scheduled vehicle and equipment renewals, lighting column replacements and Disabled Facilities Grants, pending the approval of the updated Capital Strategy during 2019.

3.7 **CONSULTATION FEEDBACK**

3.7.1 In January Cabinet agreed that Officers should enter into a period of consultation on the draft budget proposals. The consultation methods adopted for the budget have been as follows:

- All members were invited to attend Members Briefings, which set out the detailed budget proposals.
- A web based consultation page was established to allow people to provide feedback and details of the consultation.

3.7.2 The consultation period runs to the 18 February. To date 117 responses have been submitted via the web based budget consultation page.

3.7.3 The key opinions and queries noted from the feedback are attached at Appendix D. A full summary of the consultation responses received to the end of the consultation period will be provided within the March Council report.

3.8 **RESERVES AND FINANCIAL RESILIENCE**

3.8.1 In 2018 the Chartered Institute of Public Finance and Accountancy (CIPFA) released a consultation on its plans to launch an index to measure financial resilience across all local authorities and in December 2018 released its first set of draft reports and figures on the Financial Resilience Index.

3.8.2 The aim of the index is to aid Section 151 Officers in assessing and comparing financial resilience against other local authorities and provide an early warning system where it is needed so that actions can be taken at a local level. The introduction of the index was largely driven by national concerns of the financial sustainability of local authorities following recent government funding cuts, and the perceived weaknesses in public audit systems in place. Reserve balances and movements in reserves form an integral part of the Financial Resilience Index.

3.8.3 In January a report on a ‘Review of Reserves and Financial Resilience’ (report reference 19/33) was presented to the Council’s Audit Committee. The findings and recommendations of that report are incorporated within the attached draft Financial Strategy. For ease of reference, and due to the importance of the report in the context of the Council’s budget proposals, a copy of the report is attached to this report at Appendix C.

3.8.4 The Audit Committee report sets out that the 2018 Financial Strategy established a £0.5m reserve to support the Council’s revenue budget over the three year period to 2021, funded from budgetary underspends in 2017/18. A £200k draw from this reserve was approved as part of the 2018/19 budget proposals and it was anticipated that the remaining £300k would be drawn down in 2019/20. The projections for the 2018/19 financial year currently anticipate an underspend against the revenue budget, therefore the £200k can be retained in the reserve for use in a subsequent year. Similarly the move to a 3 year budget setting process has resulted in an overachievement of savings in the 2019/20 year, meaning that the £300k planned draw for that year is no longer required.

3.8.6 The 2019 Financial Strategy assumes that this £500k reserve will be utilised in 2020/21, to mitigate against higher than expected levels of funding cuts arising from the implementation of the Fair Funding Review and review of business rate baselines in that year.

3.8.7 Appendix F of the Financial Strategy sets out the Council's proposed optimum ranges for its levels of reserves and balances. These ranges have been maintained at 2018 levels and all reserves exceed their predetermined minimum balances.

3.8.8 Although the predetermined range for the General Fund has been maintained at last year's levels the Financial Strategy recommends that the current uncommitted level of £2.526m be maintained until the outcome of the Fair Funding Review is known.

3.8.9 The Financial Resilience Index has been considered in the assessment of reserve levels.

3.9 PAY POLICY STATEMENT 2019/20

3.9.1 Local Authorities are required under Section 38(1) of the Localism Act 2011 to prepare and publish a Pay Policy Statement. The Statement must articulate the Council's policy towards the pay of the workforce, particularly those regarded on high pay and the lowest paid employees.

3.9.2 Each Local Authority is an individual employer in its own right and has the autonomy to make decisions on pay that are appropriate to local circumstances and which deliver value for money for local taxpayers. The provisions of the Act do not seek to change this or to determine what decisions on pay should be taken, but they do require individual employing Authorities to be more open and transparent about their policies in relation to pay and how decisions are made in this regard.

3.9.3 Section 40 of the Act requires Authorities, in developing their Pay Policy Statement, to have regard to any guidance published by the Secretary of State. This includes the Communities and Local Government Guidance on Openness and Accountability in Local Pay and the Code of Recommended Practice for Local Authorities on Data Transparency. The requirement to establish and publish a policy covering pay arises from the Hutton Review of Fair Pay published in March 2011, which made recommendations for promoting pay fairness in the public sector by tackling disparities between the highest and lowest paid in the public sector.

3.9.4 The Act requires that Pay Policy Statements are produced annually and are considered by Full Council. Any subsequent amendments referred to in the Policy should also be considered by Full Council. The Pay Policy Statement contained within the Financial Strategy in many ways reflects the Council's current policies and practices governing workforce pay issues, which have been brought together in this Pay Policy Statement and will be kept under constant review.

3.10 DISCRETIONARY BUSINESS RATE RELIEFS

3.10.1 The Local Government Finance Act and Localism Act confer a number of discretionary powers on Councils to grant discretionary Business Rate reliefs. In September 2016 Council approved an overarching policy for the granting of those reliefs.

3.10.2 The Government regularly announces new sources of government funded business rate reliefs, which the Council must award using its discretionary powers. The Council's Business Rates Policy must therefore be updated to reflect the changes in the reliefs currently available. The reliefs currently available under the Council's discretionary policy are as follows:

- Discretionary Rate Relief for Charities and Non-Profit Making Organisations.
- Business Rates Discretionary Hardship Relief Scheme
- Local Discretionary Business Rate Discounts (including Business Development zone relief)
- Rural Rate Relief Policy
- Pubs Relief
- Transitional Relief Discretionary Scheme
- Supporting Small Business Relief
- Revaluation Discretionary Relief Scheme
- Local Newspaper Relief

Cabinet are asked to recommend the following updates to the Policy, which reflect new government announcements and will take effect from 1 April 2019:

<u>Addition of Business Rates Retail Discount</u>

In the 2018 budget the Government advised that a discount in rates payable of one third would be available to "retail occupied" premises that had a Rateable Value of £51k or less. The discount must be awarded by the Council in accordance with the Discretionary Rate Relief powers as contained within the Local Government Finance Act 1988. The "retail" discount awarded by the Council will be fully reimbursed if made in accordance with the Government Guidance.

The Council's proposed policy is shown at appendix E to this report, and will be added as a new appendix to the overarching policy. The policy fully reflects the guidance to award relief to "occupied retail premises" and the relief will be awarded for the 2019/2020 and 2020/21 financial years only.

This relief will be awarded automatically without the need for applications.

Deletion of Transitional Relief Discretionary Scheme

This policy was introduced to extend the transitional relief entitlement for the financial years 2015/16 and 2016/17 when the Government delayed the full Business Rate revaluation due on 1 April 2015 to 1 April 2017. As such the policy is no longer applicable and will be removed.

Deletion of Pubs Relief

At Spring Budget 2017 the Government announced a scheme for the 2017/18 year, which provided a business rate discount of up to £1k for eligible pubs with a rateable value below £100k. This scheme was extended to 2018/19 at Autumn Budget 2017.

This scheme has not been extended further and will therefore no longer apply after the 2018/19 financial year.

3.10.3 The Business Rate Reliefs announced by Government are regularly updated and the local discretionary policy must comply with the Government guidance therefore the Council's ability to affect the policies are limited. As the reliefs are fully funded it is proposed that in future the authority to approve changes to the reliefs available under the Discretionary Business Rates Policy be delegated to the Director (NE). This will allow the reliefs to be adopted quicker, which in turn benefits local business rate payers and also provides more time to apply the reliefs to business rate accounts prior to issuing of business rate bills at the start of a financial year.

3.11 TREASURY MANAGEMENT

3.11.1 The Council has an Investment Strategy which has been implemented over many years to maximise the return on the investment of funds whilst having regard to the security of investment; thus achieving optimum performance commensurate with the level of risk. It is stressed that whilst maximising income is the aim, the first priority is the preservation of the capital value invested.

3.11.2 To minimise the counterparty risk that exists a spread of investments is required together with a maximum investment limit at any one time with any one of the Institutions on the Council's counterparty list. In addition, as the ownership of financial institutions is complex and so that the Council is not over-exposed to 'ownership risk' a maximum Group investment limit is in place. This provides an extra layer of security to minimise the investment exposure.

3.11.3 The Investment Strategy now incorporates the Council's Commercial Property Investment Strategy, which was approved by Council in May 2018.

4. CONSULTATION

4.1 See section 3.7

5. ASSESSMENT

5.1 The headline proposals set out in the revenue budget proposals remain largely unchanged, apart from the amendments set out in this report. The draft proposals and key messages are as follows:

Revenue

- Current projections anticipate a revenue budget funding gap of £4.87m over the 3 year period to 2022;

- The strategy for addressing the funding gap continues to build on the themes of the 2016 Efficiency Plan, which are as follows:
  - Transformational Efficiencies and Commercialisation
  - Investment to support Economic Growth
  - Strategic review of the Council's role in the delivery of services and use of assets; and
  - Planned use of reserves and Investment Fund

- The headline details for the 2019/20 budget are as follows:
  - A Council Tax increase of 2.99% (£6.82 for a Band D Property), leading to a Council Tax requirement of £9.014m;
  - Proposed efficiencies/savings totalling £1.544m;
  - £205k mainstream budget provision for the following essential and priority investment:
    - £109k to increase contributions to the capital programme
    - £30k for Town Hall security
    - £33k for the DBID levy on Council owned properties
    - £15k for a restructure of the Estates service
    - £13k for a restructure of governance roles and responsibilities
    - £5k for the net loss of rental income following the sale of surplus assets
    -
  - £385k one-off funding for the following essential and priority investment:
    - £22k for Peasholm shows
    - £17k for Peasholm Café
    - £30k for Scarborough Market
    - £33k for Oliver's Mount Race Track
    - £60k for reductions in rental income
    - £38k for increases in recycling processing costs
    - £70k for increases in temporary housing costs
    - £80k to address climate change
    - £30k for the Cinder Track
    - £5k for capital investment

- The 2020/21 and 2021/22 budget savings will continue to be largely focussed around the Council's transformation and commercialisation programme.

Capital

- The new capital schemes / contributions recommended for approval within this Strategy have been restricted as an updated Capital Strategy will be presented to members during 2019. The schemes proposed for approval are as follows :-

    - **Scheduled Vehicle and Equipment Replacements** (vehicles £247k, equipment £155k, IT £189k)
    - **Planned Infrastructure Works (**£100k replacement lighting columns)
    - **Statutory Requirements** (£1.448m Disabled Facilities Grants)

- There are a number of funding sources that are not currently committed within the budget proposals. The monies available from those sources will be utilised to develop a robust, long term capital investment strategy for the Council. The Strategy will integrate with the Council's revenue budget projections as well as the Property Asset Management Plan, Commercial Investment Strategy and Priority Projects Plan which are all currently being developed and drafted. The Capital Strategy will be subject to further reports to Members during 2019.

Reserves

- All reserve ranges are deemed to be adequate

Policies

The Financial Strategy contains the following Policies and Statements:

- Treasury Management Policy Statement
- Prudential Indicators and Minimum Revenue Provision Policy
- The Council's Pay Policy Statement.

6. IMPLICATIONS

6.1 **Policy**
There are no policy implications arising from this report. An equalities impact assessment will be undertaken on all savings proposals included within the Financial Strategy.

6.2 **Legal**
There are no legal implications arising from this report.

6.3 **Financial**
The financial implications are set out in detail throughout the report and appendices to this report.

6.4 **Staffing Implications**

Any staffing changes resulting from the budget proposals will be closely managed and consutation will take place with Trade Unions. The Council has a strong commitment to try to minimise the impact on staff and number of compulsory redundancies by utilising natural wastage and providing some training for staff to suport this.

6.5 **Planning Implications, Environmental Implications, Crime and Disorder Implications, Health and Safety implications**
The establishment of a budget to support the commitment to achieving carbon neutrality and work with partners to implement best practice methods to limit climate change will have positive environmental implications.

Nicholas Edwards

Nicholas Edwards
Director

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APPENDIX A

RISK MATRIX

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1	February 2019	That the Council does not set a robust budget in 2019/20	Potential overspends and unforeseen draws from reserves in 2019/20.	▪ Review of savings proposals to ensure that they are achievable. ▪ Regular programme of budget monitoring. ▪ Budget holders taking responsibility and ownership of their budgets and signing off procedures ▪ Transformation Team and Board governance structure	B4	B4	NE / CFM / CE	
2	February 2019	That the decisions made in 2019/20 negatively impact future years revenue budgets.	▪ Unsustainable revenue budgets in future years. ▪ Unplanned draws from reserves ▪ Cuts in service	Financial Strategy and long term budget planning	B3	B3	NE / CFM	
3	February 2019	That the Council's medium to long term budget provision is not sustainable	Cuts in front facing and priority services	Strong Financial Strategy and embedding of a 5 year Medium Term Financial Plan which identifies savings targets at an early stage. Transformation Programme	D4	D4	NE / CFM / CE	
4	February 2019	That the outcome of the Fair Funding Review is worse than	Higher levels of funding cuts The need to make	▪ Contingencies established ▪ General Fund balance	B4	B4	NE / CFM	

APPENDIX A

RISK MATRIX

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
		anticipated in the Council's current financial projections	additional budget savings Potential cuts in front line services					
5	February 2019	That the Council's capital resources are insufficient to fund essential and desirable capital works	▪ Health and Safety issues. ▪ Increases in the cost of responsive repairs ▪ Increases in unsupported borrowing ▪ Pressure on future year revenue budgets	▪ Capital schemes included for approval are restricted and some resources remain uncommitted. ▪ Comprehensive Capital Investment Strategy to be presented to Members in 2019	D4	B4	HFAM / CFM	Prepare Capital Investment Strategy
6	February 2019	That the Council has insufficient resources in future years to fund current service levels	▪ Cuts in front facing services ▪ Staffing reductions ▪ Increased budget risk ▪ Draws from reserves	▪ Financial Strategy and long term budget plan ▪ Early identification of savings requirements ▪ Prioritisation of services ▪ Transformation and Commercialisation agenda	E4	E2	DT / HFAM	Prioritisation of services and medium to long term strategy for budget reductions.

APPENDIX B

FINANCIAL STRATEGY

** Circulated as a separate document **

APPENDIX C

	REPORT TO AUDIT COMMITTEE 31 JANUARY 2019
	Corporate Priority: **Improving the Council**

REPORT OF THE DIRECTOR (NE) – 19/33

WARDS AFFECTED: ALL

SUBJECT: REVIEW OF RESERVES AND FINANCIAL RESILIENCE

RECOMMENDATION (S):

For Audit Committee to note the outcome of the review of reserves and assessment of financial resilience and note that the predetermined reserve ranges will be maintained in line with the levels set out in the Council's current Financial Strategy.

REASON FOR RECOMMENDATION (S):

To ensure that optimum reserve levels are maintained.

HIGHLIGHTED RISKS:

That the Council's reserves are not managed effectively or that reserves become overcommitted, resulting in insufficient contingency to cover unforeseen budgetary pressures and financial instability over the short to medium term.

1. INTRODUCTION

1.1 Reserves play an important role in the Council's financial planning process and underpin the sustainability of both the revenue and capital financial plans. The uncommitted levels of reserves are monitored throughout the year in conjunction with the wider budget monitoring process to ensure that they are on target and are deemed to be adequate, taking into account identified risks.

1.2 As the Chief Finance Officer (CFO) the Section 151 Officer has a statutory duty to advise the Council on the recommended level of reserves, taking into account the strategic, operational and financial risks facing the Council in both the long and short term. This assessment includes a review of past performance and external influences on the financial plan, along with full consideration of the risks and uncertainties associated with the budgetary projections, including their likelihood of occurrence.

1.3 Section 114 of the Local Government Finance Act 1988 requires the CFO to report to all members if there is, or is likely to be an unbalanced budget position. In recent years local authorities have been subject to significant cuts in Central government funding and in early 2018 Northamptonshire County Council was the first local authority in over 20 years to issue a section 114 notice. The issuing of this notice triggered the National Audit Office to publish a report on financial sustainability in local authorities, with the report indicating that there is a heightened risk of more councils falling into special measures as a result of budget pressures over the next four years.

1.4 In light of the above, and the perceived weakness of public audit systems in place, the Chartered Institute of Public Finance and Accountancy (CIPFA) released a consultation in July 2018 on its plans to launch an index to measure financial resilience across all local authorities. The aim of the index is to aid CFO's in assessing and comparing financial resilience against other local authorities and provide an early warning system where it is needed so that actions can be taken at a local level. Reserve levels and movements in reserves form an integral part of the financial resilience assessment.

2. CORPORATE OBJECTIVES AND THE COMMUNITY PLAN

2.1 This report impacts upon all of the Council's Corporate Objectives, however, it specifically supports the aim of 'Improving the Council' through the strengthening of governance arrangements, mitigation of financial risk, and matching of resources with priorities.

3. BACKGROUND AND ISSUES

3.1.1 CURRENT RESERVE BALANCES AND OPTIMUM LEVELS

The Financial Strategy, which is approved by Full Council each year, sets out the range of reserve balances that the Section 151 Officer considers to be adequate based on the Council's policy to maintain reserves that are prudent but not excessive. Historically the Council's reserves have been split into the following distinct areas:-

- General Fund Reserve
- Corporate Reserves, and
- Operational Reserves and Balances

3.1.2 General Fund Reserve

The General Fund Reserve represents an accumulated working balance to meet future contingencies. The 2018 Financial Strategy set out that the predetermined optimum range for this reserve was considered to be between £2.0m to £3.0m.

The uncommitted balance of the General Fund Reserve currently stands at £2.526m and is therefore within this optimum range.

3.1.3 **Corporate Reserves**

Corporate reserves are managed centrally and are set aside for the benefit of all service areas. The Council has 5 corporate reserves as follows:

3.1.4 **Capital Contingency Reserve**

The Capital Contingency Reserve is set aside to fund small scale, ad-hoc schemes as well as to provide contingency funding for potential overspends on schemes included within the Council's capital programme. The predetermined optimum range for this reserve stands at £0.5m to £1.5m.

The uncommitted balance of the Capital Contingency Reserve currently stands at £505k and a further contribution of £100k will be made to the reserve in 2019/20.

A significant proportion of the Council's current capital programme (£29m) relates to coast protection schemes. Given that the value of these schemes is almost double the size of the Council's annual net revenue budget this places a substantial amount of financial risk on the Council. Separate contingency amounts of £4.2m (14.5%) are held within the overall budget for these schemes to mitigate against potential cost overruns. £3.13m of this contingency budget is funded from Council resources.

Given the separate contingency provision within the coast protection budgets the balance of the capital contingency reserve is considered to be adequate.

3.1.5 **Capital Development Reserve**

The Capital Development Reserve underpins the Capital Strategy, pulls together all capital resources, and focuses capital investment into priority areas over the medium term. The Capital Development Reserve matches resources to investments over a 10 year period to ensure that resources are not over committed.

Projections currently show that the Capital Development reserve balances are fully committed over the 10 year period although separate monies have been identified within the Council's Financial Strategy, which will allow the Council to take forward an updated capital strategy from 2019/20 onwards. It is anticipated that this Strategy will be presented to members for approval during 2019.

3.1.6 **Insurance Reserve**

The Insurance Reserve covers risks which are by their nature difficult to insure such as cliff slippage and certain storm damage, and risks which are generally uneconomic to insure such as damage due to leakage from water pipes and the theft of small items of equipment. The fund also meets the cost of some insurance excesses.

The minimum balance for this reserve stands at £1.350m and the uncommitted balance currently stands at £1.9m, therefore is considered to be adequate.

3.1.7 **Pension Reserve**

The pension reserve is set aside to meet the upfront costs associated with the added year element of employee pension and redundancy costs. The predetermined optimum range for this reserve stands at £0.1m to £0.75m.

The projected reserve balance as at 31 March 2019 is £1.17m, which is above the predetermined range. Whilst it is recognised that the requirement to make high levels of savings to balance the revenue budget may put a particular strain over this reserve in the short to medium term an analysis of future year indicative savings shows that the savings identified to date are largely driven via the Council's commercialisation agenda so should not result in large scale staffing reductions.

On that basis it is proposed that £300k of the uncommitted reserve balance be transferred to the Investment Fund (as detailed below). This will reduce the uncommitted balance of the Pension Reserve down to £870k, which is still in excess of the predetermined range.

3.1.8 **Investment Fund**

The 2016 Financial Strategy established an Investment Fund to provide one-off funding for schemes that will help the Council to deliver revenue savings in 2016/17 and beyond. Further amounts were committed to the reserve from the 2015/16 year-end underspend and from monies freed up from a review of operational reserves in 2016/17.

The establishment of the reserve has been extremely successful, with monies being allocated to projects such as the purchase of In Cab devices for refuse freighters, funding of business analysts and IT specialists to support the Council's Corporate Modernisation programme, installation of MOT facilities at Dean Road depot, restructure of TIC and public convenience provision across the Borough and provision of external support for the review of Dean Road / Manor Road depot facilities.

The uncommitted balance on the reserve currently stands at £0.3m. The Council's ambitious Corporate Modernisation programme may require significant investment in order to deliver the levels of savings needed to balance the revenue budget over the period to 2021/22, therefore it is proposed that £300k be transferred from the Pension Reserve to the Investment Fund as part of this review of reserves. This will increase the uncommitted balance held in the Investment Fund to £0.6m.

In addition to the Investment Fund the Council has an annual capital budget of £189k set aside for IT systems and enhancements. A number of the projects identified through the Corporate Modernisation Programme are IT related therefore it may be beneficial to merge this budget with the Investment Fund. This will be explored as part of the work being undertaken on the Council's Capital Strategy.

3.1.9 **Operational Reserves**

Operational Reserves are held for corporate areas as well as for each Directorate. The reserves primarily relate to accumulated under spending that has been carried over to support known future operational requirements, and ring-fenced grant monies that have been received in advance of the associated expenditure being incurred.

There are no predetermined ranges set for these reserves however they are reviewed on an annual basis. Any amounts that are deemed to be surplus to requirements will be released to take forward the Council's updated Capital Strategy.

3.2 FINANCIAL RESILIENCE INDEX

3.2.1 In December 2018 CIPFA contacted local authorities regarding the consultation feedback for the Financial Resilience Index and agreed that draft reports and figures would be released to CFO's to support them in fulfilling their statutory duties for the 2019/20 budget setting process. It was stressed that the draft reports issued are for the use of CFO's only at this stage and are still being developed therefore they were released on a strictly confidential basis and are not for general distribution or publication at this time.

3.2.2 The current draft indicators contained within the Index measure:

- the levels of Council earmarked and unallocated reserves held at a financial year end as a proportion of current year net revenue expenditure;
- movements in reserves over the past 3 financial years; and
- the proportion of local authority budget funded from central government grants.

3.2.3 A local authority that has reducing and relatively low levels of reserves in proportion to their net revenue budget and is heavily reliant on core government funding would be classified as high risk on the resilience index. Conversely an authority that has high levels of reserves and a budget that is funded by a high proportion of Council Tax income, which is deemed a more stable source of funding, would be classed as lower risk.

3.2.4 It is intended that the indicators will be used as tools to flag financial concerns however it should be noted that, although useful, they are limited in their nature and cannot be interpreted without a thorough understanding of a local authority's specific budget and local financial risks. On this basis the indicators will never negate the need for the CFO's statutory, independent assessment of reserve levels.

3.2.5 As an example the indicators measure reserve levels against revenue costs only and do not recognise capital spend or commitments. Members will be aware that Coast Protection work contracts have increased this Council's exposure to financial risk significantly in recent years, however that risk cannot be measured or identified by a review of the Financial Resilience Index indicators alone. In addition the latest set of indicators are based on the Council's Balance Sheet position as at 31 March 2018. As at this date the Council held £14.1m in its Capital Development Reserve. These monies are fully committed within the Council's approved capital spending plans and the reserves set aside for these costs will be drawn down over the short term as the approved schemes are taken forward. The Financial Resilience Index in future years will identify that Council reserves are reducing and this will be flagged as a concern within the indicators, however they will not identify that the reserve draws were planned and that the monies had specifically been set aside for this purpose.

3.2.6 A review of the reserve indicators shows that the Council has increased its levels of reserves in recent years and, as expected given the balance held in the Capital Development Reserve, has relatively high proportions of earmarked reserves compared to its nearest neighbour comparator group. For this Council earmarked reserves comprise the corporate and operational reserve balances as detailed within this report. When the Capital Development Reserve balance is removed from the figures the Council's earmarked reserves represent 91.7% of annual net revenue expenditure which is still within the mid-range of the Council's comparator group so does not raise concern.

3.2.7 Another reserve indicator within the index measures the levels of unallocated reserves (i.e. General Fund Balance) against net revenue expenditure. Given that the Council's earmarked reserves are largely committed and will not likely be available to the Council over the medium to long term this is considered to be the most important indicator within the overall index. Scarborough's uncommitted General Fund balance currently stands at £2.526m, which represents 16.5% of annual net revenue expenditure. This is the third lowest % within the Council's comparator group and places the Council 149th lowest in a comparison against all 198 non met districts within the country. This does flag concerns that the Council may not be as financially resilient as other district councils across the country.

3.2.8 The indicators measuring the Council's reliance on core government funding place the Council as being at relatively low risk in this area compared to other district Councils, which is understandable given the above national average funding cuts that the Council has faced in recent years.

4. ASSESSMENT

4.1 The Council's revenue budget report for the period 2019/20 to 2021/22 was presented to Cabinet in December 2018. The report set out that over the financial years 2010/11 to 2018/19 the Council has had to identify ongoing savings of circa £18m to balance the annual revenue budget. In 2018/19 the Council moved to a more detailed 3-year budget setting programme, which has proven to be very successful and has allowed savings to be identified and delivered in a longer term, planned and structured way.

4.2 As a result of the significant cuts in central government funding since 2010 the Council is much less reliant on this source of income, and current projections anticipate that core government funding and retained business rates income will stand at £3.5m in 2021/22 compared to £12.5m in 2010/11. This shift from a reliance on government funding to more stable sources of fees and charges and Council Tax income significantly reduces the financial risk faced by the Council.

4.3 The revenue budget report sets out that the government will fundamentally review core grant funding allocations in 2020/21 through the Fair Funding Review and a reset of business rate baselines. Short term transitional arrangements will be implemented alongside the Fair Funding Review to temper significant funding changes at an individual local authority level. At the time of writing the December Cabinet report the Council's financial projections assumed that funding and income from business rates growth would reduce by £1.1m in 2020/21 and a further £1.4m in 2021/22.

4.4 After the December Cabinet report was produced the Government published further consultation documents on the Fair Funding Review and localised business rates scheme. Highly surprisingly the papers showed that deprivation will be removed as an indicator from the funding needs assessment, which could negatively impact on our funding settlement. At the time of writing the December report it was also widely accepted that ministers were in favour of recommending a partial rather than full business rates baseline reset in 2020/21, which would allow Council's that have grown business rates within their area to retain a proportion of that growth post 2020/21. The updated consultation papers state that this is no longer the case and that a full reset is now the recommended position. Given that the Council will utilise £1.1m of business rates growth to balance its 2019/20 revenue budget this change in policy will have a significantly detrimental effect on the Council. Officers are now more pessimistic on the outcome of the Fair Funding Review and feel that there is a higher risk that the funding allocations will be worse than previously anticipated.

4.5 It is likely that the outcome of the Fair Funding review will not be known until as late as December 2019, therefore the funding projections for 2020/21 are highly uncertain and will remain so until a very late stage in the 2020/21 budget setting process. In light of the information contained within the new consultation papers it is deemed appropriate that higher levels of contingency be set aside for 2020/21 to mitigate against potentially higher levels of funding cuts than those currently built into projections.

4.6 The 2018/19 budget set out that £0.5m would be drawn from reserves to balance the revenue budget over the period to 2020/21. This £0.5m was funded from one-off budgetary underspends achieved in the 2017/18 financial year rather than being drawn from the General Reserve balance. At that time it was envisaged that £0.2m would be used to balance the 2018/19 budget and the remaining £0.3m would be drawn down in 2019/20, and the December Cabinet report was drafted on that basis.

4.7 The projections for the 2018/19 financial year currently anticipate an underspend against the revenue budget. It has previously been reported that this underspend would be earmarked for investment in the Council's capital strategy however it is now proposed that the first call on up to £200k of any underspend will be to reduce the budgeted contribution from reserves.

4.8 The move to the 3 year budget setting process has resulted in an overachievement of savings in the 2019/20 year. The December Cabinet report set out that those overachieved savings would be made available to fund one-off cost increases that were uncertain at the time of writing the report and any remaining balance would be transferred to the Investment Fund. In light of the updated Fair Funding consultation paper, it is now proposed that any surplus identified within the 2019/20 budget be used to reduce the planned £0.3m draw from reserves in that year and defer it into the 2020/21 year. This, along with the potential £200k not utilised within the current financial year, would be made available to provide an additional contingency against higher than projected funding cuts following the Fair Funding Review.

GENERAL FUND

4.9 The Council adopts a prudent approach to budgeting through the inclusion of contingency budgets within its financial projections and recognition of all cost pressures as they are identified. The Council also has strong budget monitoring procedures in place and, despite the need to identify significant savings in recent years, has not had to make unplanned draws from reserves to balance its in year budgetary position.

4.10 Section 3.2.7 of this report sets out that the Financial Resilience Index measure of unallocated reserves as a proportion of net revenue expenditure places the Council's uncommitted level of General Fund Balance at a relatively low level compared to other district councils and comparator group. We have critically assessed this position and consider that given the Council's prudent approach to budget setting and strong monitoring procedures that are in place we are comfortable with this position at the current time.

4.11 On the basis of the above it is recommended that the current optimum General Fund Reserve range of between £2.0m to £3.0m be maintained. Draws from the General Fund Reserve, which will take the reserve below the current uncommitted balance of £2.526m are not however advised until the outcome of the Fair Funding Review is known.

CORPORATE RESERVES

4.12 Officers have reviewed the corporate reserves and have determined that the optimum ranges will also be maintained at the levels set out within the 2018 Financial Strategy.

The ranges proposed for all categories of reserves are detailed in the table below:

	RESERVE	OPTIMUM RANGE
a)	**General Fund Balance**	The balance to be maintained within the range of £2.0m to £3.0m.
b)	**Corporate Reserves:**	
	Capital Contingency Reserve	The balance to be maintained within the range of £0.5m to £1.5m
	Capital Development Reserve	The approved expenditure from the fund will be match its resources over a 10 year planned period
	Insurance Reserve	A minimum balance to be maintained in the medium term of £1.350m
	Pension Reserve	The balance be maintained within the range of £0.1m to £0.75m
	Investment Fund	The approved expenditure from the reserve not to exceed the resources available in any one year
c)	**Operational Reserves**	Reserves are held for specific purposes therefore no predetermined range.

4.13 All reserve balances are currently considered to be adequate.

6. IMPLICATIONS

(a) Policy

6.1 There are no policy implications associated with this report.

(b) Legal

6.2 There are no legal implications associated with this report.

(c) Financial

6.3 There are no direct financial implications associated with this report.

(d) Equality and Diversity

6.4 There are no equality and diversity issues associated with this report.

(e) Staffing

6.5 There are no staffing issues associated with this report.

(f) Communication

6.6 There are no communication implications associated with this report.

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Background Papers:
None

IF YOU HAVE ANY QUERIES ABOUT THIS REPORT OR WISH TO INSPECT ANY OF THE BACKGROUND PAPERS, PLEASE CONTACT Kerry Metcalfe on 01723 383542 or e-mail kerry.metcalfe@scarborough.gov.uk

APPENDIX D

FEEDBACK FROM BUDGET CONSULTATION

** Circulated as separate document **

APPENDIX E

BUSINESS RATES RETAIL DISCOUNT

Policy for awarding Retail Discount for the 2019-20 and 2020-21 Financial Years

1. PURPOSE AND RECOMMENDATIONS

Purpose of Report: To adopt a policy to award "Retail Discount" in accordance with the Discretionary Rate Relief powers as contained within Section 47 of the Local Government Finance Act 1988 (as amended) and the Government budget announcement from 29 October 2018.

Recommendations: It is recommended that:
(a) the Council award "Retail Discount" for occupied retail properties with a rateable value of less than £51,000 in each of the years 2019-20 and 2020-21. The value of the discount should be one third of the bill, and must be applied after mandatory reliefs and other discretionary reliefs funded by section 31grants have been applied;

(b) the business to qualify for the relief must be "retail" as detailed in the policy;

(c) the Council through the National Non-Domestic Rate Return process seek full re-imbursement of the cost of this relief from Central Government;

(d) where a ratepayer demonstrates their entitlement to the "retail" relief the Director of Business Support be delegated to award the relief.

2. BACKGROUND

- The Government in the budget on 29 October 2018 advised that a discount in rates payable of one third would be available to "retail occupied" premises that had a Rateable Value of £51,000 or less.
- This discount must be awarded by the Council in accordance with the Discretionary Rate Relief powers as contained within the Local Government Finance Act 1988 (as amended).
- The "retail" discount awarded by the Council if made in accordance with the Government Guidance will be fully reimbursed.
- The Policy proposed in this report reflects fully the guidance to award relief to "occupied retail premises".
- The relief will be awarded for the 2019/2020 and 2020/21 financial years only.

3. THE POLICY

The purpose of this policy is to enable the Council to award "Retail Discount" for occupied retail properties with a rateable value of less than £51,000 in each of the years 2019-20 and 2020-21. The value of the discount should be one third of the bill, and must be applied after mandatory reliefs and other discretionary reliefs funded by section 31grants have been applied.

APPENDIX E

BUSINESS RATES RETAIL DISCOUNT

As this is a measure for 2019-20 and 2020-21 only, the Government is not changing the legislation around the reliefs available to properties. Instead the Government will in line with the eligibility criteria set out in their guidance reimburse local authorities that use their discretionary relief powers, introduced by the Localism Act (under section 47 of the Local Government Finance Act 1988, as amended) to grant relief. Central government will fully reimburse local authorities for the local share of the discretionary relief (using a grant under section 31 of the Local Government Act 2003).

Which properties will benefit from relief?

Properties that will benefit from the relief will be occupied hereditaments with a rateable value of less than £51,000, that are wholly or mainly being used as shops, restaurants, cafes and drinking establishments.

We consider shops, restaurants, cafes and drinking establishments to mean:

Hereditaments that are being used for the sale of goods to visiting members of the public:

- Shops (such as: florists, bakers, butchers, grocers, greengrocers, jewellers, stationers, off licences, chemists, newsagents, hardware stores, supermarkets, etc)
- Charity shops
- Opticians
- Post offices
- Furnishing shops/ display rooms (such as: carpet shops, double glazing, garage doors)
- Car/ caravan show rooms
- Second hand car lots
- Markets
- Petrol stations
- Garden centres
- Art galleries (where art is for sale/hire)

Hereditaments that are being used for the provision of the following services to visiting members of the public:

- Hair and beauty services (such as: hair dressers, nail bars, beauty salons, tanning shops, etc)
- Shoe repairs/ key cutting
- Travel agents
- Ticket offices e.g. for theatre
- Dry cleaners
- Launderettes
- PC/ TV/ domestic appliance repair
- Funeral directors

BUSINESS RATES RETAIL DISCOUNT

- Photo processing
- Tool hire
- Car hire

Hereditaments that are being used for the sale of food and/ or drink to visiting members of the public:

- Restaurants
- Takeaways
- Sandwich shops
- Coffee shops
- Pubs
- Bars

To qualify for the relief the hereditament should be wholly or mainly being used as a shop, restaurant, cafe or drinking establishment. In a similar way to other reliefs (such as charity relief), this is a test on use rather than occupation. Therefore, hereditaments which are occupied but not wholly or mainly used for the qualifying purpose will not qualify for the relief.

The list set out above is not intended to be exhaustive as it would be impossible to list the many and varied retail uses that exist. There will also be mixed uses.

The list below sets out the types of uses that would not be considered to be retail use for the purpose of this relief.

Hereditaments that are being used for the provision of the following services to visiting members of the public:

- Financial services (e.g. banks, building societies, cash points, bureaux de change, payday lenders, betting shops, pawn brokers)
- Other services (e.g. estate agents, letting agents, employment agencies)
- Medical services (e.g. vets, dentists, doctors, osteopaths, chiropractors)
- Professional services (e.g. solicitors, accountants, insurance agents/ financial advisers, tutors)
- Post office sorting offices
- Hereditaments that are not reasonably accessible to visiting members of the public
- Museums
- Nightclubs and music venues which are not similar in nature to the hereditaments described above
- Theatres
- Hereditaments used for sport or physical recreation (e.g. gyms)
- Cinemas

APPENDIX E

BUSINESS RATES RETAIL DISCOUNT

How much relief will be available?

The total amount of government-funded relief available for each property for 2019-20 and 2020/21 under this scheme is one third of the bill, after mandatory reliefs and other discretionary reliefs funded by section 31 grants have been applied, excluding those where local authorities have used their discretionary relief powers introduced by the Localism Act which are not funded by section 31 grants2. There is no relief available under this scheme for properties with a rateable value of £51,000 or more.

The eligibility for the relief and the relief itself will be assessed and calculated on a daily basis. The following formula will be used to determine the amount of relief to be granted for a chargeable day for particular a hereditament in the financial year 2019-20:

Amount of relief to be granted =

$\frac{V}{3}$ where

V is the daily charge for the hereditament for the chargeable day after the application of any mandatory relief and any other discretionary reliefs, excluding those where the council has used their additional discretionary relief powers introduced by the Localism Act which are not funded by section 31 grants.

This will be calculated ignoring any prior year adjustments in liabilities which fall to be liable on the day.

Ratepayers that occupy more than one property will be entitled to relief for each of their eligible properties, subject to State Aid De Minimis limits.

State Aid

State Aid law is the means by which the European Union regulates state funded support to businesses. Providing discretionary relief to ratepayers is likely to amount to State Aid. However Retail Relief will be State Aid compliant where it is provided in accordance with the De Minimis Regulations (1407/2013)

The De Minimis Regulations allow an undertaking to receive up to €200,000 of De Minimis aid in a three year period (consisting of the current financial year and the two previous financial years).

Splits, mergers, and changes to existing hereditaments

The relief will be applied on a day to day basis using the formula set out above. A new hereditament created as a result of a split or merger during the financial year, or where there is a change of use, will be considered afresh for the relief on that day.