6. SERVICE AND FINANCIAL PLANNING – GUIDELINES FOR 2017/18

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Wards Affected: All
Key Decision: Yes
Report to: Cabinet
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Purpose of Report

1. This report sets out the service and financial context within which the authority will operate over the next two years and offers guidance towards the drawing up of the Corporate Plan and Budget for 2017/18. It is intended to set a direction for the authority when considering future service and financial decisions.

Summary

2. The Council has a well-tested and robust service and financial planning process that has enabled it to respond effectively to the very difficult financial challenges local government has faced over a number of years. The report outlines the Council's various funding streams and some key aspects of its expenditure. It also considers our timeline to reaching financial independence in the medium term.

3. It concludes that uncertainty over the future of the wider economy (given the turmoil that followed the EU referendum) means that our prudent approach to managing the Councils finances should continue. The Council still has to use a combination of recurring savings and increases in income of approximately £285,000 over the next four years to achieve a balanced budget, taking into account the need to maintain and improve services and mitigate the forecast reduction in Revenue Support Grant. The budget gap for 2016/17 is estimated to be £35k in surplus (previously forecast at £345k deficit) after allowing for a very modest increase in council tax, but with no other significant price rises.

4. The report also highlights the need to refresh the Council's Corporate Objectives in this planning cycle. This is vital as whilst financial prudency remains essential, the Council also needs to ensure the corporate priorities support the Council's vision, aspirations and aims. It is suggested that the Administration's Service and Financial Planning Working Group should consider their revision as part of their work during the Autumn.

5. Subject to the discussion at Cabinet, the content of this report will guide the preparation of service plans and budget proposals through the autumn and will enable a draft Corporate Plan and Budget for 2017/18 to be published for Members' consideration in December.

Recommendations

6. **That Cabinet endorses the guidelines set out within this report and uses these principles in compiling the 2017/18 Corporate Plan and Budget and refresh of the Council's corporate priorities.**

7. **Cabinet sets up a Working Group to advise the Cabinet and Council on this work.**

8. **Cabinet agree to the submission of an Efficiency Plan in order to secure a four-year funding deal.**

9. **Cabinet reserves its decision on Council Tax levels until after the November 2016 Budget.**

Background

10. Members will be aware that the financial outlook for local government as a whole remains very challenging especially after the Referendum vote to leave the EU. This paper pre-dates the November Budget when it is expected that some further cuts in public expenditure may be made – potentially affecting Local Government in spite of the four-year Settlement announced last December.

11. This means that whilst the projections within these guidelines are very prudent and should pre-empt the possible funding reductions, we will have to wait until November to understand their full impact, and for the Provisional Financial Settlement in early December to ascertain the distributional impact on Mid Sussex. The Council will need to have alternative strategies in place were the position to be worse than anticipated, and similarly there may be potential to adjust income decisions were the position to improve.

12. The Council's track record in identifying and delivering savings and efficiencies is good and Members and Officers have traditionally worked well together to navigate these challenges. Over the last ten years we will have delivered well over £6.8m of planned savings whilst maintaining service levels in key service areas.

13. These savings have resulted from a range of initiatives:

- Working in partnership with other neighbouring Councils and our contractors.
- Robustly managing budgets to identify savings on an ongoing basis including revenue and controlling costs.
- Increasing flexibility and productivity of services through service redesign and digitisation
- Explore all opportunities to maximise income.

14. Over the years, this programme of budget savings has been extensive for a low spending authority such as Mid Sussex. This achievement should also be set in the context of the work that has been done over the same period to maintain and where possible improve service performance despite these budget reductions. During the current year the Council has begun its work to explore digital technologies in order to improve Customer Service and efficiency. This is the latest strategy the Council has deployed in order to help balance its financial resources and service requirements.

15. The assumption behind the remainder of this report is that, as a rule of thumb, Members wish to keep service performance at least at current levels despite the need to reduce budgets in line with the Medium Term Financial Plan (MTFP). It is noted that this is an increasingly difficult challenge given the scale of savings already secured in previous years and using digital technology is one of the ways the Council may be able to support service development whilst managing within the resources available.

16. We should also be mindful of the need to take decisions now that may have greater effect over the medium term. This is emphasised because inflation on our costs (over which we have little control) is still greater than inflation on our income (over which we do have control) over this timescale. The effect of this is that a budget deficit can build up over the life of the plan which could have been prevented had earlier decisions on income levels been taken.

17. Subject to endorsement by Cabinet, this report provides the overall direction and guidance for officers and Members as they prepare service plans and budget proposals over the autumn. In the usual way, a draft Corporate Plan and Budget for 2017/18 will be published in December.

Updating the latest published position

18. The last Medium Term Financial Plan published as part of the Corporate Plan and Budget report presented to Council in February 2016 showed the projected gaps (figures in brackets represent a surplus) between overall income and expenditure as:

2016/17	**2017/18**	**2018/19**	**2019/20**
£'000s	*£'000s*	*£'000s*	*£'000s*
0	345	(27)	359

19. Since the Plan was published new information has emerged that will need to be taken into account. The remainder of the report explores this in more detail. As we go through the detailed budget planning cycle, further pressures and savings will come forward from the Business Units and these will be taken into account at a later date.

Corporate Priorities

20. The Council's 'Better Lives, Better Environment and Better Services' strategy direction has served it well over the past 10 years. During that time as the economic climate has changed so have the challenges and opportunities facing the Council. During that period, the Corporate Objectives have guided the formulation of the annual corporate plan to the successful reference policy it is now.

21. However, it is timely to review the priorities to ensure they support the Council's corporate direction, aspirations and aims.

22. It is not expected that the Council would particularly change direction radically at this juncture but that this refresh will clearly set out what the Council wants to achieve over the Medium Term.

23. Over the last few years the Council has set up an Administration Working Group to guide the Council in its budget setting work. It is therefore proposed to build on that work and utilise this Group to refresh the corporate priorities over the autumn, alongside its budget setting work.

Four-year Settlements

24. The last Settlement announced in December 2015 contained the statement that authorities could sign up for certainty and receive the Revenue Support Grant that was set out within the papers each year for the next four years. The only proviso was that an 'Efficiency Plan' should be drawn up and published by the authority – and that this would be based on the MTFP but briefly detail the savings necessary to balance the budget over the medium term. This is clearly a departure from the current one year settlement.

25. There would seem to be little risk in our adopting such a strategy since the offer is to accept the current four year settlement or risk being given a different, potentially lower figure. Whilst it is conceivable the settlement could be higher, this is thought to be most unlikely.

26. While detail is lacking on the exact form such a Plan should take, Officers recommend that the Council's intention should be made clear. Members are therefore asked to confirm their appetite for a submission prior to the deadline in October and that this be delegated to the Portfolio Holder and Head of Corporate Resources.

New Homes Bonus (NHB)

27. This funding stream is an important one for many councils, and the level of income is significant to us, as previous reports have shown. To date we have received £8.1m.

28. Members will recall that this funding stream is not ring-fenced and can be used at the discretion of the Council. It is a reward grant paid in direct proportion to the numbers of new homes built or brought back into use.

29. Many councils have used this funding in their revenue budgets in preference to making savings. We have not done this but instead placed it in reserves and used it for specific purposes, to date largely this has related to housing or investment in community facilities to support housing growth. However, as noted last year, as the whole model of local government funding changes, NHB is increasingly becoming an element of our mainstream funding from Government, albeit reward related. As traditional formula grant become less significant, NHB becomes relatively more important to the Council.

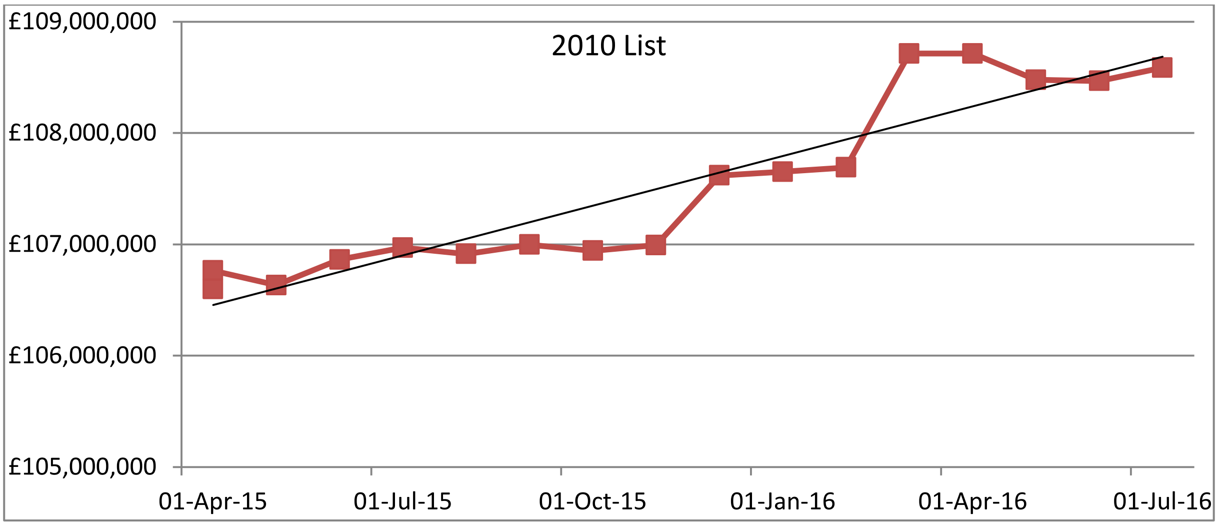
30. Overall, funding is expected to change in 2017/18 as a result of the consultation but it is not known exactly how just yet. Indications are that less grant will be available, and over a shorter time scale of four years rather than the present six. However, given that we do not rely on this income in the revenue account, we can await developments and update Members accordingly. .

Rate Retention Scheme

31. This was the new method of part-funding local authorities, introduced for the 2013/14 financial year. Members will recall that at its most simplistic, a target for the collection of rates is set, and if that is exceeded, then the Council can keep a proportion of the excess.

32. The experience of the last year has been broadly positive (subject to monthly fluctuations). While the total rateable value (RV) of all non-domestic properties in the district did increase overall, this has been offset by having to make an allowance for appeals against these valuations; the results of which can go back to the last rating list in 2010.

33. The chart below shows the increase in RV for Mid Sussex over the last 15 months.



34. Whilst this bodes well for the future, given that the trend is upward, there are many variances that may affect our position in the coming years and we are therefore taking a very prudent view of the income to be generated from the RRS in 2017/18, and intend to continue this approach in the medium term.

35. Were the projected level of income not to be achieved in the year, a buffer is available by drawing on the RRS Reserve, created for just such an eventuality.

Revenue Support Grant (RSG)

36. Revenue Support Grant will be phased out by 2020, to be replaced by 100% Business Rate Retention. Exactly how this will work is still being explored by a number of national working groups. A consultation on both the distribution system and the individual local authority need is still underway, although it is hard to imagine that Mid Sussex, or shire districts generally, will end up with increased funding.

37. For next year, we know that RSG income will amount to only £128k. The following year, it will reduce to zero. Therefore the Council's work to support a healthy economy in Mid Sussex will be very important in the future. The Council will need to consider carefully how this is resolved and is something that the Chief Executive has considered in her recent review of the Council's Management Team.

38. Members may recall that in 2009/10 our RSG was in excess of £6M; which shows the level of efficiency achieved since that time.

Council Tax Support Scheme

39. The Council agreed a local Council Tax Support scheme in January 2013 which was introduced at the start of 2013/14. Members will recall that the aim of the scheme was to discount the Council Tax for eligible households to ensure that the total discount awarded in one year was equal to the amount of grant that the Council received. Our budget projections proved to be accurate.

40. Since that time, the economy has continued to improve and we are discounting council tax bills to a lesser degree than projected. This translates into a higher council tax base, which increases the total revenue derived from council tax. There are no plans to change the Council Tax Support Scheme for 2017/18 although research continues to find a scheme which is simpler and more administratively efficient.

Income from Fees and Charges

41. The Council generates various sources of income; car parking charges, land charges, building control, and planning fees, industrial and commercial rents and green waste income amongst others.

42. To agree a budget for 2017/18, the Council will need to make assumptions about the local economy and in particular the building-related sectors that affect income from these sources. Our current assumption about income assumes activity levels roughly equivalent to 2016/17 and therefore that the levels of income in those areas will not decrease.

43. However, for Development Management we are anticipating an increase in budgeted income for 2017/18 over that of the current year and 2015/16. We will need to review this position as the year progresses and expectations on planning applications become clearer but in the meantime we can prudently expect extra income of £300,000 in the year, much of which will arise from the Northern Arc application.

44. We are not forecasting any increased income, through price rises, from either green waste collection or car parking for 2017/18 at this point although of course this does remain an option. Therefore, forecast income is at the levels indicated in the relevant Business Plans.

Investment Income

45. Members will recall that we invested £4m in the Local Authority Pension Fund in July 2015 in order to generate a revenue income to help offset the reduction in RSG. To date, this has yielded around £160k per annum, (4% return).

46. In the spring of this year and in consultation with the Cabinet Member for Finance and Resources and the Chair of the Audit Committee, we invested a further £2m in the fund in accordance with our Treasury Management Strategy. The expected income of £80k per annum can now be brought into the Revenue Account.

Temporary Accommodation

47. This is the cost of providing temporary housing for families and individuals who have been accepted as homeless. Whilst this is often bed and breakfast accommodation, we are often using more economic and appropriate accommodation.

48. We are now seeing an increased number of people being accepted as homeless, with the accompanying rise in the costs of temporarily accommodation. This may be due to a number of factors, but mainly arises from the extreme pressure on affordable housing in the district.

49. This manifests as a budget pressure of at least £100k in 17/18 but will need reviewing regularly throughout the year as this budget is directly related to the number of families in temporary accommodation.

Leisure Centre Investments

50. Cabinet received a report in July setting out the range of investments this year at our Leisure Centres totalling £3.1m. That level of investment will drive increased participation and income at the centres such that the operator is able to offer an increased level of management fee totalling £60k per annum with effect from 1st April 2018. This can reliably be brought into the revenue account from that date.

51. This investment is considered to be adequate for 16/17. It is therefore recommended that we set aside £300k in the reserve for further investment in 2017/18. This would enable investment in other parts of the business with a stronger business case whilst keeping the Leisure Reserve topped up for investment opportunities as they arise.

ICT Reserve

52. This funds the investment in our new infrastructure as well as financing the move to the Cloud and the digital investment in our 'digital by design' programme. The business analysis and setting up of the CRM and associated Waste System has taken place. We are now well placed to build on these foundations to roll out better applications and enable more mobile and customer-focused interaction. The next phases are introducing Microsoft Office 365, the cloud based productivity suite, and retiring a range of smaller applications. This supports the move to a simpler infrastructure, increased resilience and lower hardware infrastructure costs.

53. We are expecting to have spent £490k from the total budget and are predicting to spend another £275 in the new financial year, as we start to move away from legacy systems and reduce our commitment to the Census ICT partnership. It is therefore proposed to recommend to Members that there is a top-up of the reserve with the balance of the funding referred to above as a one-off sum of £200k. This investment is vital to help support the Council's work to increase efficiency whilst also managing costs.

Pension Fund issues

54. The triennial revaluation of the whole WSCC pension fund is taking place and this will obviously have implications for this Council. Given the uncertainty caused by the Brexit vote, and other factors such as increasing longevity, it is likely that contributions will continue to rise to cover the deficit.

55. However, the fund allows us to stabilise our contributions and increase them by a cumulative 1% per year in order to avoid sharp increases or decreases upon revaluation.

56. It is therefore considered prudent to budget for a 1% increase each year over the Medium Term.

Council Tax

57. Last year's increase of 1.99% was the first council tax increase for 5 years. Similar increases have been built in to the Medium Term Financial Plan in future years.

58. Late on in the budget setting process for this year, we were notified that authorities with lower quartile council tax at Band D, would be allowed to increase tax by the higher of 1.99% or £5. It was judged that our 1.99% increase would continue for 16/17 but consideration would be given to the £5 increase (which equates to 3.3%) were circumstances to merit it. For example, Chichester DC did this twice over the last four years.

59. For planning purposes we have shown the increase at 1.99% but Cabinet are asked to examine the financial position in the round before committing to a decision at this stage.

Council Tax Base

60. In the current year we are working to an increase in the council tax base of 1.77%. Current monitoring shows that this is still realistic.

61. For 2017/18 we had forecast a lesser increase of 1.2%. This reduced figure will be updated later in the year by which time the uncertainty created by the EU referendum may have abated and the future of UK housebuilding may be clearer.

Inflation

62. Each year we recalculate the likely cost of inflation to the Council. Whilst the biggest slice of this is pay inflation (which has now been pegged at 1% per annum) there are also contract price increases as well since many of our larger contracts are linked to inflation-measuring indexes such as CPI, Average Weekly Earnings or fuel prices.

63. Our 'basket' of indicators gives rise to an estimate for inflation of £212k each year, although we update that for next and future years when the September CPI figures are published. In the meantime this remains our working figure.

Overview

64. The financial changes in our income and expenditure set out above can be overlaid on to the Medium Term Financial Plan to arrive at a new surplus/deficit position for the next four years. To recap, these changes are:

Description	**Pressure**	**Saving**	**Total**
	£'000s	*£'000s*	*£'000s*
Development management income		(300)	
Temporary accommodation	100		
15/16 savings		(44)	
Dividend income		(80)	
Pension funding		(56)	
Net change	100	(480)	(380)

65. These changes alone mean that the corresponding position to that set out in paragraph 9 above is now:

2017/18	2018/19	2019/20	2020/21
£'000s	*£'000s*	*£'000s*	*£'000s*
(35)	(251)	201	285

66. We are therefore approximately balanced in the next financial year and the year after with a gap opening up again thereafter. The scale of these gaps is evidently less significant than those in previous years although they are potentially affected by the uncertainty around the Spending Review in November and the Settlement announcement in December. Members may therefore wish to retain flexibility in its Service Planning in the event that the council's circumstances change adversely. The Appendix sets out this picture in more detail.

Next Steps

67. Now we have up-dated the MTFP and estimated budget gap for 2017/18, officers will examine the Councils' income and expenditure in detail with a view to maximising efficiencies. As each budget proposal is developed it will be assessed against the likely impact on service provision. This work needs to take place over the next three months so that a draft balanced budget, with supporting service plans and performance targets, can be considered by the Leader and Service Delivery Scrutiny Committee at its meeting in January 2016. This will enable the process to follow the usual timetable through to its adoption of the Corporate Plan and Budget by Council at the end of February 2017.

Policy Context

68. Setting a financial strategy and understanding the environment within which the authority operates is a fundamental requirement in preparing the annual Corporate Plan and Budget. The strategy and supporting service plans will be informed by the Council's agreed corporate priorities in the usual way.

Other Options Considered

69. The report outlines the context within which service and financial planning should take place this year but does not make a recommendation for a particular decision or course of action. Therefore no other options are considered.

Financial Implications

70. This report has no financial implications in itself. However, if the guidance is followed there will be implications and these will be set out in the draft Corporate Plan and Budget due to be published in December.

Risk Management Implications

71. This report has no such implications in itself, and the forecasts contained herein are based on the best information available to us at the time having been subjected to an appropriate level of due diligence in order to ascertain that the financial position is as described. In the event that the situation worsens, alternative strategies may have to be considered and employed but only after the appropriate decisions have been consulted upon.

Equality and Customer Service Implications

72. No Impact Assessment has been carried out on the subjects covered by this report; these will be drawn up and considered when such decisions are implemented.

Other Material Implications

73. None.

Background Papers