6. SERVICE AND FINANCIAL PLANNING – GUIDELINES FOR 2018/19

REPORT OF:	Peter Stuart, Head of Corporate Resources
Contact Officer:	Email: peter.stuart@midsussex.gov.uk Tel: 01444 477315

Wards Affected:	All
Key Decision:	Yes
Report to:	Cabinet 5 September 2017

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 sets out guidelines for developing the Corporate Plan and Budget for 2018/19. 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 funding streams and some key aspects of its expenditure. It also considers the case for presenting the Council as financially independent in the next financial year.

3. It is set in the context of an uncertain exit from the European Union and a government in place which may struggle to enact its policy agenda. Areas affected may be, for example, the potential for a transition to 100% business rate retention and the reform of the planning and benefits system.

4. The budget for 2018/19 is generally in balance and enables some significant transfers to specific reserves to support the Council's ambitions, though the Council still has to use a combination of recurring savings and increases in income of approximately £1.4m over the next four years to achieve a balanced budget. The budget gap for 2018/19 is estimated to be £12k in deficit after allowing for a modest increase in council tax, but with no other significant price rises.

5. At the same time that this report is being considered, Officers are scoping the level of resource needed to create capacity to respond to the ambitions of Members to see investment in frontline services specifically in response to changing customer requirements and to see continuing support for local communities. While this requires investment in services, such as Planning and Economic Development, it is likely that some support services will also require extra resources within the same timescale. These proposals will be brought forward when the scoping work has been completed and a planned and costed position is established.

6. 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 2018/19 to be published for Members' consideration in December.

Recommendations

Cabinet is recommended to

7. **endorse the guidelines set out within this report and uses these principles in preparing the 2018/19 Corporate Plan and Budget;**

8. **affirm that the Council can be considered to be 'financially independent' for the financial year 2018/19**

9. **reserve its decision on Council Tax levels until after the November 2017 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 in 2016 to leave the EU and the surprise result from the General Election in June. Some issues remain fluid and, importantly, this paper pre-dates the November Budget when it is expected that some relaxation of public sector austerity may be made. This may potentially affect Local Government by manifesting as inflationary pressures.

11. This means that whilst the projections within these guidelines are very prudent and should pre-empt the possible Budget impacts, we will have to wait until November to ascertain if our assumptions are realistic and for the Provisional Financial Settlement in early December to ascertain any 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 £7m 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 digitalisation.
- Exploring all opportunities to maximise income including investing in income producing assets.

14. The assumption behind the remainder of this report is that, as a rule of thumb, Members want to keep service performance at least at current levels without significantly impacting upon the Medium Term Financial Plan (MTFP). However, Members also acknowledge the need to invest in some areas in order to deliver the Council's ambitions. This will be a difficult challenge given the scale of savings already secured in previous years. That said, investment in digital technology is one of the ways the Council may be able to support service development whilst managing within the resources available.

15. It is important to note that decisions taken now 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.

16. 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 2018/19 will be published in December.

Updating the latest published position

17. The last Medium Term Financial Plan published as part of the Corporate Plan and Budget report presented to Council in February 2017 showed the projected gaps (figures in brackets represent a surplus) between overall income and expenditure as:

2018/19	**2019/20**	**2020/21**
£'000s	*£'000s*	*£'000s*
(453)	(45)	152

18. 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 also need to be taken into account.

New Homes Bonus (NHB)

19. 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. We have so far received £13m in the last six years.

20. 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 made limited use of it for specified 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.

21. Overall, the funding total is expected to change in 2018/19 but this is not yet known. Indications are that reduced grant will be available, and we know that funding will be over a shorter time scale of four years rather than the present six. We will await developments and update Members accordingly. In the meantime Officers' advice remains to be cautious about relying on NHB for ongoing expenditure.

Rate Retention Scheme (RRS)

22. The RRS was the new method of part-funding local authorities, introduced in 2013/14. 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.

23. 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.

24. However, 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 2018/19, and intend to continue this approach in the medium term.

25. Members will appreciate that the new (post June 2017) government has postponed plans to introduce 100% Business Rates retention and its timescale is now uncertain. We are therefore proceeding on the basis that the existing scheme continues unchanged. In the event that this proves unfounded, we shall revisit our assumptions and the funding associated.

26. Whichever scheme is in force, the Council has created a RRS Reserve to smooth out any fluctuations in income.

Revenue Support Grant (RSG)

27. This time last year the government had planned that Revenue Support Grant would be phased out by 2020, to be replaced by 100% Business Rate Retention. The General Election result would appear to have put that work on hold for now and it is not clear exactly how local authorities will be funded over the medium term. .

28. For next year, we know that RSG income to Mid Sussex will fall to nil and the following year, it will reduce to a negative payment; representing a payment back to the government, financed from taxation.

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

Financial Independence

30. Over the last few years the Council has aspired to become financially independent – and has taken that definition to be able to exist on its own resources without what used to be called 'formula grant', ''aggregate external funding (AEF), or the present name, Revenue Support Grant. Whatever the name, what these grants had in common was that they were designed to offer unringfenced (i.e. without spending conditions) financial support to the authority to bridge the gap between its income and its expenditure.

31. Given that RSG will no longer be payable to the authority, and that our income will be derived solely from retained business rates, rents, fees and charges, council tax and certain grants arising from the performance of specific functions, we can consider ourselves to be ‘financially independent’ of central government support.

32. While this in itself does not confer any particular financial reward or freedoms, it is an achievement that represents many years of careful financial stewardship that matches the strategic ambition of the Council for the Mid Sussex community. It remains one of the key fiscal strategies for the future development of this Council and community.

Council Tax Support Scheme

33. 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.

34. 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 2018/19. However research continues to find a scheme which is simpler and more administratively efficient, perhaps based on household income bands rather than a full means test. This will be a work stream for 2018.

Income from Fees and Charges

35. 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.

36. To agree a budget, 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 2017/18 and therefore that the levels of income in those areas will not decrease.

37. However, for Development Management we are anticipating an increase in budgeted income for 2018/19 over that of the current year – based on the 20% increase in planning fees outlined within the recent Housing White Paper.. We will need to review this position as the year progresses and expectations on planning applications and fees become clearer. In addition the emerging District Plan provides a level of certainty on the number of dwellings the District needs each year. This figure of 876 pa can now be used as the basis of calculating planning income, although of course the Council is not in control of development so it is difficult to absolutely calculate anticipated income.

Income Source	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	£'000s	*£'000s*	*£'000s*	*£'000s*	*£'000s*
Pre-application	52	57	49	34	34

fees					
Planning Application fees	980	1,164	1,204	1,150	1,403
Total	1,032	1,221	1,253	1,184	1,467

38. We are not forecasting any increased income, through price rises, from either green waste collection or car parking for 2018/19 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 have now invested £6m in the Local Authority Property Fund in order to generate a revenue income to help offset the reduction in RSG. This is producing a reliable £240k per annum at around a 4% return which helps support service delivery.

Temporary Accommodation

46. This is the cost of providing temporary housing for families and individuals who have been accepted as homeless and the Council has a statutory obligation to house. Whilst this is often bed and breakfast accommodation, we also use more economic and appropriate accommodation.

47. Regional trends are indicating an increase in the number of people being accepted as homeless, with the accompanying rise in the costs of temporary accommodation. This is a very worrying trend and is due to a number of factors relating to Welfare Reforms and the extreme pressure on affordable housing in the district.

48. The budget is therefore being maintained at the higher level set in 2017/18 and we will review this regularly throughout the year as this budget is directly related to the number of families in temporary accommodation. We will be monitoring this closely.

ICT Reserve

49. 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.

50. We are expecting to have spent £490k from the total budget and are predicting to spend another £275k 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 that we top up the reserve each year with £400k over the medium term. This investment is vital to help support the Council's work to increase efficiency whilst also managing costs. It represents an 'invest to save' approach and a commitment to improve customer service.

Pension Fund issues

51. The triennial revaluation of the whole WSCC pension fund has taken place and showed that the fund as a whole is 95% funded (up from 86.4% three years before).

52. We continue to move towards full funding however, and the fund allows us to stabilise our contributions. For the next three years these stay at 2017/18 levels, at 18.6% of salary, together with a lump sum.

53. At the next valuation in 2019 it would be prudent to budget for a 1% increase in the employer contribution rate.

Council Tax

54. 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.

55. Late on in the budget setting process for 2016/17, 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 considered that our 1.99% increase would continue for 17/18 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.

56. 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 the appropriate point in the process. Given the pressures forced upon us and the desire to invest in front line services, the flexibility to keep the option of a £5 increase available is sensible at this point.

Council Tax Base

57. In the current year we are working to an increase in the council tax base of 1.79%. Current monitoring shows that this is still realistic.

58. For 2018/19 we have forecast a lesser increase of 1.2%. This takes into account the effect that having a made District Plan will have upon housebuilding within the district. It should be noted that numbers of properties built does not have a direct correlation with the taxbase, as a result of discounts and exemptions awarded.

Inflation

59. 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 for the last 5 years) 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.

60. We are now working to the assumption that public sector pay restraint may be lessened next year, and have budgeted for a 2% rise.

61. Similarly, the forecasts are that general inflation is likely to exceed the BoE targets in the medium term and that our ‘basket’ of indicators will give rise to an estimate for inflation of £549k each year. We can update that for next and future years when the September CPI figures are published.

Service Development

62. The district has been experiencing an up-lift in economic activity which looks set to continue for the future. Whilst housebuilding is the most obvious sign, business development is growing.

63. The Council’s role in this is often not as a direct provider but as an enabler, and sometimes as a regulator. This can involve the Council’s property interests, and resources are expended in implementations and projects that may take years to come to fruition. The Council is also launching a new Economic Development Strategy in 2018/19 and will adopt the District Plan in 2018 which will set the planning framework for the District. Work on the Burgess Hill growth area is a key part of both of those plans.

64. We are therefore having to review our Business Units and their resourcing in order to ensure that the Council’s and the community’s ambitions can be met in a timely way.

65. Development Management and Planning Policy and Economic Development are the two areas where there has been a focus on making a modest increase in staffing, financed from Planning income. On recent evidence will also need to review Corporate Estates where activity has significantly increased. Similarly, services such as legal, and finance, which support planning and economic development work will need some investment in order to ensure that they can provide the appropriate level of support

66. The position regarding the Census Partnership will also take effect in 2018/19. Whilst the staffing side of ICT has been resolved and we are now the direct employers of staff, some key systems are still being managed, paid for and recharged by Horsham DC. The cost of this revised service is expected to be within the present financial envelope in the future however, excepting the cost of new investments met by the ICT reserve.

67. For Revenues and Benefits however, the disaggregation is more clear-cut, and by April 2018, we will be operating a standalone service. This should benefit from the digital agenda and will focus on being increasingly customer friendly and accessible as it evolves. However, it will be appreciated that whilst the creation of the partnership generated some economies of scale, the disaggregation has the potential to increase costs from that low base. Officers are working through these implications along with colleagues in Adur and Horsham district councils. For planning purposes we have forecast an increase of £300k pa over the medium term.

68. The outcomes of all these deliberations will come forward as part of the budget process prior to the draft Corporate Plan and Budget being considered by Members in the late autumn. In the interim period, Officers and Members will work together to formulate an approach to both financial years, taking into account the factors set out in this paper.

Overview

69. 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*
2016/17 net on-going savings/ permanent changes		(96)	
CenSus Revenues & Benefits disaggregation costs	300		
Development Management additional income		(335)	
Cost of Development Management staffing Restructure	259		
Inflation change	337		
Net change	896	(431)	465

70. These changes alone mean that the corresponding position to that set out in paragraph 17 above is now:

2018/19	2019/20	2020/21	2021/22
£'000s	*£'000s*	*£'000s*	*£'000s*
12	757	1,291	1,491

71. We are therefore approximately balanced in the next financial year although the year after has a gap generated by the 'repayment' of RSG (discussed above). The scale of these gaps is evidently significant although they are potentially affected by the uncertainty around the Budget in November and the Settlement announcement in December. Members may therefore wish to retain flexibility in Service Planning in the event that the council's circumstances change adversely. The Appendix sets out this picture in more detail.

Next Steps

72. Now we have up-dated the MTFP and estimated budget gap for 2018/19, 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 2018. 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 2018.

Policy Context

73. 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

74. 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

75. 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

76. 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

77. 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

78. None.

Background Papers