6. SERVICE AND FINANCIAL PLANNING – GUIDELINES FOR 2019/20

REPORT OF:	Peter Stuart, Head of Corporate Resources
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Wards Affected:	All
Key Decision:	Yes
Report to:	Cabinet 24 September 2018

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 2019/20. 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.

3. The budget for 2019/20 is not formally in balance, mainly as a result of the emergence of 'negative RSG' in the 18/19 budget settlement. If this were to be dealt with to no detriment to the Council we could continue to maintain service levels and make some significant transfers to specific reserves to support the Council's ambitions.

4. However, the report indicates that the government is minded to mitigate negative RSG and we are therefore proceeding on that basis.

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 2019/20 to be published for Members' consideration in December.

6. The budget for 2020/21 is more uncertain, mainly as a result of the 'Fair Funding Review' that is taking place presently and is to be implemented for this year. It is likely that some rebalancing of income between tiers of local government may take place, and it is quite probable that this will be to the detriments of shire district councils, like Mid Sussex. Members will be aware of the very significant pressures being experienced by authorities with Children's and Adult Social Care responsibilities. These pressures are critical with many authorities forecasting an inability to fund the services required over the medium term. This includes West Sussex County Council. Therefore if the Fair Funding Review rebalances funding to support services to these vulnerable children and adults (which is to be welcomed), it will almost inevitably negatively affect Councils like Mid Sussex. Our work to put together a budget for 2019/20 and beyond will need to take account of this likelihood.

7. As part of this picture, WSCC has already started to develop options for significant and painful budget cuts. These will almost certainly impact upon this Council's work and may involve additional costs in 2019/20; Members will be updated on this regularly.

Recommendations

Cabinet is recommended to

8. **endorse the guidelines set out within this report and use these principles in preparing the 2019/20 Corporate Plan and Budget;**

9. **reserve its decision on Council Tax levels until after the November 2018 Budget.**

Background

10. Members will be aware that the financial outlook for local government as a whole remains very exacting especially after the Referendum vote in 2016 to leave the EU. 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, perhaps in the area of salary increases.

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, in general, Members want to keep service performance 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. Members will need to consider this particularly when the impact of the Fair Funding Review is known.

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 2019/20 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 2018 showed the projected gaps between overall income and expenditure as:

2019/20	**2020/21**	**2021/22**
£'000s	*£'000s*	*£'000s*
854	1,286	1,450

18. Since the Plan was published new and updated information has been received that will need to be considered. 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 £21m in the last eight 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 use of it for specified purposes; to date, largely, this has related to housing or investment in community facilities to support housing growth. Indeed, earlier this year, Council agreed to place £4m in a reserve to support the Council securing additional temporary accommodation in response to service pressures.

21. Just before the parliamentary recess, MHCLG offered a technical consultation on local government funding for 2019/20. Within that document, proposals were made on New Homes Bonus and Revenue Support Grant.

22. Whilst not certain, it seems likely that NHB will be replaced with an alternative method for rewarding housebuilding from 2020/21. For next year however, only small tweaks will be made to the system, such that the threshold for <u>any</u> award being made will rise.

23. It is not expected that these minor changes will affect Mid Sussex however, and our forecasts are therefore unchanged i.e. an income of £3.74m.

Rate Retention Scheme (RRS)

24. 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.

25. 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.

26. 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 2019/20, and intend to continue this approach in the medium term.

27. 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. Whilst there are plans to introduce a 75% scheme, this is not yet formally adopted and 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.

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

Revenue Support Grant (RSG)

29. 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. .

30. For next year, current indications are that RSG income to Mid Sussex will reduce to a negative payment (‘negative RSG’); representing a payment back to the government, in effect, financed from taxation. Members may recall that in 2009/10 our RSG was in excess of £6M; which shows the level of efficiency achieved since that time.

31. However, as referred to in Para 21 above, we are being consulted on methods by which ‘negative RSG’ can be mitigated for 2019/20; this is a one year problem to be solved because the whole system of local government finance changes in the following year.

32. Of the three methods proposed, the governments preferred one is to simply not make the charge but to, effectively, find the money from elsewhere to finance the national ‘gap’. This is simple, effective and, of course politically expedient.

33. That method would have our support, and while it is not a certain outcome, it seems sufficiently probable that we can forecast our finances without including negative RSG within our budget for 2019/20.

Business Rates Retention Pilot

34. The same document referred to earlier also invited bids to become Business Rate Retention pilots on the new 75% scheme which should start in 2020/21. The pilots would be for 2019/20 and are intended to test the system before its implementation.

35. Members may recall that we applied to be a pilot in the last round, with all our West Sussex colleagues (both County and District/boroughs) but were not successful. This time, following an initiative by this Council, it is likely that our application will be used to fund further work to roll out full fibre connectivity across West Sussex. The economic benefits of this have the potential to be very significant and consequently all West Sussex authorities hope the bid will be successful.

36. Members will receive a report on any bid, in due course.

Fair Funding Review

37. The government is considering a wide range of options for developing an updated funding formula by looking again at the factors that drive costs for local authorities. The review is intended to ensure that all authorities are appropriately funded.

38. The review will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence.

39. It has been evident recently that the tiers of local authority that deal with Adult and Children's Social Care are finding that demand for services outstrips the financial resources to deal with them; some are ceasing or at least delaying expenditure on all non-statutory services in an effort to bring overall spending under control. Members will be aware of the very significant financial issues being faced by a number of upper tier Councils nationally including West Sussex County Council.

40. There is a widespread view that some financial rebalancing between the tiers of local authority is necessary and that the Fair Funding Review will be the mechanism by which this happens.

41. As a Shire District, Mid Sussex can expect to see adjustments to its non-domestic rates baseline that will have the effect of reducing funding to the authority. This will be understandable if it is used to finance areas of greater need, if unwelcome in terms of its impact upon us. It is to be hoped that this change can be achieved transparently and that an appropriate damping mechanism can be employed to smooth out changes over a number of years. Therefore in considering the 2019/20 budget and the Medium Term Financial Plan, members need to keep the likelihood of detriment to this Council firmly in mind. We are already facing significant budget gaps from 2020/21 onwards and these are likely to get worse, therefore now we should ensure we do as much as we can to pre-empt the likely changes and protect services.

42. We are therefore taking the opportunity to model the possible outcome of the Review by showing a significant reduction in our income from the Rate Retention Scheme in 2020/21. Formerly we were showing £2.7m of income with £200k being placed in the Scheme Reserve; i.e. a net £2.5m. In a 'worst case scenario' this could be reduced by £1m to £1.5m, albeit it would be likely to be damped in a real implementation.

43. This income reduction (driven by a reset of our Business Rates Baseline as part of the Review) then increases the Gap, shown in the Medium Term Financial Plan by a corresponding amount.

44. Members will be kept informed of the outcome of this Review but evidently, this scenario will need some careful consideration over the coming months and may also guide decisions to be taken in the short to medium term.

Council Tax Support Scheme

45. 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.

46. 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 2019/20. 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 2019, for implementation in 2020/21.

Income from Fees and Charges

47. 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.

48. 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 2018/19 and therefore that the levels of income in those areas will not decrease.

49. We are not forecasting any increased income, through price rises, from either green waste collection or car parking for 2019/20 at this point, although of course this does remain an option and is something members will wish to keep under consideration, especially over the medium term. Therefore, forecast income is at the levels indicated in the relevant Business Plans.

Investment Income

50. 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

51. 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.

52. 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.

53. The budget is therefore being maintained at the higher level set in 2018/19.

54. However, (as mentioned in paragraph 20) Cabinet has agreed a programme to purchase temporary accommodation and as this scheme rolls out, we expect to see costs reducing. We will review this regularly throughout the year as this budget is directly related to the number of families in temporary accommodation.

ICT Reserve

55. This funds the investment in our new infrastructure, finances moving legacy systems to the Cloud and the investment in our 'digital by design' programme. We are now well placed to build on the foundations of the CRM, Waste system, HR & Payroll and imminently the new Financial Management System. The next phases are repatriating the servers that support the Planning Service from the old CenSus network as we have done for the Revenues and Benefits service. We will also be introducing Windows 10 to all our ICT estate and implementing mobile working tools and applications.

56. We are expecting to have spent £490k from the total budget and are predicting to spend another £310k in the new financial year, as we start to move away from legacy systems and end the infrastructure for the Census ICT partnership. It is therefore proposed that we continue to 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

57. The triennial revaluation of the whole WSCC pension fund will take place next year. It is not expected that contributions need to rise dramatically but that we should budget for a 1% annual increase for the next three years.

Council Tax

58. Last year's increase of 3.2% was the first inflation-linked council tax increase for 5 years. Similar increases have been built in to the Medium Term Financial Plan in future years.

59. For planning purposes we have shown the increase at 3.10% 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 (volumes, increased housing et al) forced upon us, the likely outcome of the Fair Funding Review, and the need 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

60. In the current year we are working to an increase in the council tax base of 1.65%. Current monitoring shows that this is still realistic.

61. For 2019/20 we have forecast an increase of 1.7%. This takes into account the effect that having a District Plan will have upon housebuilding within the district but allows also for a general increase which is appropriate given the priority to deliver increased numbers of new homes. 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

62. Each year we recalculate the likely cost of inflation to the Council. The biggest slice of this is pay inflation but 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. We are now working to the assumption that public sector pay will increase by 2% year on year.

64. Similarly, the forecasts are that general inflation is likely to exceed the Band of England targets in the medium term and that our 'basket' of indicators will give rise to an estimate for inflation of £502k (including pay inflation) each year. We can update that for next and future years when the September CPI figures are published.

Service Changes

65. Prior to publishing a Corporate Plan and setting a budget, we try and anticipate any service changes or financial influences that will impact upon the upcoming year.

66. For 2019/20 there are no particular changes that the Management Team wish to take account of – in the main the growth area, and therefore pressure, is within the Development Management and Economic Development sectors of service. Members will recall that these areas received significant investment in the current year, mostly financed from the increase in planning fee prices (nationally increased by 20%). The team's establishment was increased and appropriately skilled officers recruited to ensure that the Council's aspirations in this area could be met, primarily around delivering on the sustainable growth in housing and employment space envisaged in the District Plan and support for the local economy.

67. We also continued to transfer significant sums to specific reserves to finance the one-off costs for studies and consultants that arise from this work and it is proposed that this continues into the medium term. Specialist skills are essential to securing the Council's ambitions in this area.

68. However, we are aware that a pressure is developing in the Waste service as a result of the County Council's financial situation and this is set to have an impact upon us.

69. The West Sussex Cabinet Member for Environment is to take a decision to reduce the level of recycling credits to the statutory minimum. This will affect all the districts and boroughs in West Sussex who currently enjoy enhanced rates as part of a drive to increase recycling and reduce quantities of waste going to landfill.

70. This reduction in the reward for recycling is expected to cost us some £52k per year when measured against budget, although for some authorities that figure is much higher.

71. Given that this change is imminent, it would seem prudent to include the effect in our forecast for next year and the medium term plan.

72. In addition to this example, we are aware that West Sussex County Council's work to achieve very far reaching budget cuts is underway. The options being developed may involve additional costs for this Council. Therefore we will need to plan very carefully and try to anticipate these issues.

73. There are no other service pressures at present but this will of course be kept under careful review. In the meantime, budget holders are being asked for their estimates for next year and this process may also present some pressures and savings which will need to be considered for inclusion in the 2019/20 budget.

Overview

74. 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*
Changes arising from 17/18 budget	37		
Recycling credits reduction	52		
Taxbase increase		(50)	
Negative RSG figure removed		(767)	
Net change	89	(817)	(728)

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

2019/20	**2020/21**	**2021/22**	**2022/23**
£'000s	*£'000s*	*£'000s*	*£'000s*
126	1405	1409	1578

76. We are therefore anticipating an unbalanced position in the next financial year and over the medium term. For 2019/20 the position will need to be brought into balance in accordance with our statutory requirements and work over the autumn will generate options for members to consider.

77. As described above, the outlook for 2020/21 is very unclear due to the Fair Funding Review, so it can be expected that these figures will change. Members may therefore wish to retain flexibility in Service Planning in the event that the council's circumstances change adversely and in order to make prudent decisions to support the Council over the medium term. The Appendix sets out this picture in more detail.

Next Steps

78. Now we have up-dated the MTFP and estimated budget gap for 2019/20, officers will examine the Councils' income and expenditure in detail. 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 2019. 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 2019.

Policy Context

79. 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

80. 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

81. 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

82. 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

83. 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

84. None.

Background Papers