SERVICE AND FINANCIAL PLANNING – GUIDELINES FOR 2020/21

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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 sets out guidelines for developing the Corporate Plan and Budget for 2020/21. 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 outlook for local government funding is uncertain. The expected Fair Funding Review looks likely to be pushed back to next summer. Members should know the caution with which shire districts like Mid Sussex are treating the Review. 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 detriment of shire district councils in the medium term.

4. In the short term, West Sussex County Council is seeking to reduce its budget gap and has announced a range of spending cuts and reviews that will lead to spending cuts or reduced income for this council. The most significant of these are discussed within the report and their impact on our finances assessed.

5. The effect of this is that the budget for 2020/21 is not in balance, with a gap of £1.101m. This will need addressing over the autumn.

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 2020/21 to be published for Members' consideration in December.

Recommendations

7. **Cabinet is recommended to**

   (i) endorse the guidelines set out within this report and use these principles in preparing the 2020/21 Corporate Plan and Budget;

   (ii) reserve its decision on Council Tax levels until after the Spending Review.

Background

8. 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 and this year's recent changes to the government.

9. In order to give financial certainty to central government departments, the Chancellor has announced an accelerated Spending Round, just for one year, to be announced in early September.

10. It is not known how this will affect the sector, and certainty should not be confused with sufficiency. It is likely that key priorities such as health, social care and law and order will benefit from any reallocation of funds, probably to the detriment of organisations not providing these services.

11. This means that whilst the projections within these guidelines are very prudent, we will have to wait until 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 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.

13. 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 next year.

14. The greatest impact forecast within this report results from 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, it will almost inevitably negatively affect Councils like Mid Sussex. Our work to put together a budget for 2020/21 and beyond will need to take account of this likelihood.

15. With the delay in the Review, such rebalancing of funding is also delayed so authorities with these responsibilities face another year of underfunding. Unfortunately this manifests in their needing to reduce expenditure in the short term.

16. Thus, as part of that overall picture of reducing funding, WSCC has started to develop options for significant budget cuts which will impact on service delivery as the Council moves to deliver core statutory services. These will almost certainly impact upon this Council's work and may involve additional costs in 2020/21; these are discussed later in this report.

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 2020/21 will be published in December.

Updating the latest published position

18. The last Medium Term Financial Plan published in the Corporate Plan and Budget report presented to Council in February 2019 showed the projected gaps between overall income and expenditure as:

2020/21	**2021/22**	**2022/23**
£'000s	*£'000s*	*£'000s*
1,425	1,555	1,856

19. This can now be updated, and 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)

20. 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.

21. 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 general reserve 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 purchase and run our own temporary accommodation..

22. Whilst not certain, it does now seem likely that NHB will be replaced with an alternative method for rewarding housebuilding. Given that it has no effect on the revenue account however, we can afford to put discussion over alternative schemes aside for now.

Rate Retention Scheme (RRS)

23. 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.

24. The experience of the last years 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.

25. 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 2020/21, and intend to continue this approach in the medium term.

26. Members will appreciate that in the current year we are participating in a Business Rate Retention Pilot; this means a proportion of the rates are retained within the County in order to fund a High Speed Fibre internet project.

27. As the time of writing it is not clear whether this pilot continues in 2020/21 given that it was awarded for one year only prior to full Rates Retention being rolled out across the country.

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

29. Members should note that because of the delay in implementing the Fair Funding Review (see below) the income assumed to have been lost from RRS has been reinstated for the 2020/21 year. This represents an increase in income of £1.021m for that year compared to our original forecast.

Revenue Support Grant (RSG)

30. The government had planned that Revenue Support Grant would be phased out by 2020, to be replaced by 100% Business Rate Retention. This has been delayed due to other governmental priorities.

31. Members may recall that we were to have moved into 'negative RSG' this year but that this was mitigated by a one-off adjustment to the grant calculation.

32. At the time of writing, we do not know whether this will be repeated for 2020/21; however given the implications of not so doing we are assuming that an adjustment will be made once more.

Fair Funding Review

33. 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.

34. 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.

35. 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.

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

37. 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 Council. This will be understandable if it is used to finance areas of greater need. 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 2020/21 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 we should ensure we do as much as we can to pre-empt the likely changes and protect services.

38. However, whilst not certain at the time of writing, it is believed that the FFR will be delayed by a year given that the government is prioritising our exit from the European Union.

39. It is therefore likely that our funding regime for 2020/21 will be a replica of the current year rather than being the redistributive version we were anticipating.

40. Whilst this is welcome, it simply puts off what is probably inevitable until the following year, 2021/22. For the time being we shall push back our forecasts for a reduction in funding accordingly.

41. 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

42. 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.

43. 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.

44. For 2020/21 it is proposed to move to a banded scheme with no significant financial effects on the overall budget. This work is being led by the Leader, Finance and Performance Scrutiny Committee and is the subject of a full consultation exercise.

Income from Fees and Charges

45. 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.

46. Our current assumption about income assumes activity levels roughly equivalent to 2019/20.

47. We are not forecasting any increased income, through price rises, from either green waste collection or car parking for 2020/21 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. Whilst there may be changes to income levels in parking as a result of the ongoing Parking Strategy work, for the moment, forecast income is at the levels indicated in the relevant Business Plans.

Investment income and commercialisation

48. 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.

49. Later in the last financial year, we also bought two investment properties, the rent from which is used to support services. This makes a useful contribution of £325k and £370k and helps reduce the gap between overall income and expenditure.

50. Officers continue to explore opportunities to purchase such properties in order to increase revenue income. Ideally this would be financed from capital receipts.

51. As this report demonstrates, the income is applied to service delivery and will become an important funder as other sources of income fall away.

Temporary Accommodation

52. There is a cost to providing temporary housing for families and individuals to whom the Council has a statutory obligation to assist.

53. Following the introduction of new duties under the Homelessness Reduction Act 2017 national trends are indicating an increase in the number of people being accepted as homeless, with the accompanying rise in the costs of providing temporary accommodation.

54. Due to increasing demand the budget is being maintained at the higher level set in 2018/19. The Council will continue to implement the Corporate priority to deliver the Council's own temporary accommodation with an aim to improve the service and reduce spend on guest house accommodation.

Payments to reserves

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 introducing Windows 10 to all our ICT estate and implementing mobile working tools and applications.

56. The payment to this reserve may be capable of being reduced with the expectation that ICT projects have to bid for funding alongside other capital projects, and could be financed from the General Reserve or from Capital Receipts. This would give us some flexibility to deal with cost pressures arising in the short term.

Orchards Reserve

57. The payment to this reserve was intended to help finance cost pressures where the service charge to tenants was inadequate, or where tenant incentives would otherwise lead to a one-off dip in rental income in a financial year.

58. This is separate to the Orchards Capital Reserve (presently at £5m) which was created to help fund any major redevelopment of the centre.

59. There are no forecast calls on the Orchards Reserve in 2020/21 so it may be possible to reduce the transfer to this reserve if circumstances demand.

Burgess Hill Growth Reserve

60. This reserve was set up to finance the various projects that comprise the Burgess Hill Growth Programme. At 31st March 2019 this reserve held £854k but this is expected to reduce to £570k the end of the year. This programme supports the transformation of the local economy, creating thousands of new jobs and will make Burgess Hill an attractive place to live and do business. This reserve supports delivery of the inward investment the Council has successfully secured in 2019/21. This included £6.5m from the Governments Housing Investment Fund and £10.9m from the LEP.

Development Plan Reserve

61. This finances the ongoing costs of consultants and studies that are needed to bring forward the Council Development Plan. This is made up of the District Plan and supporting development plans, such as the Sites Allocation Development Plan document. Whilst we have budgeted for a further £300k to be transferred, the service is reviewing this reserve and it is highly likely more funding will be required. This will be available shortly and will be included in deliberations over the autumn.

Pension Fund issues

62. The triennial revaluation of the whole WSCC pension fund has taken place and we are expecting the results towards the end of the year. Preliminary indications are that the overall fund is well capitalised and there may be scope to reduce our contributions by the level of the stabilisation factor of 1%. We can review this when we have the actuarial results, later on in the year.

Council Tax

63. Nationally Councils are increasing Council tax. This is an indication that tax revenues need to keep pace with inflation.

64. For planning purposes we have shown the increase at 3.00% but Cabinet are asked to examine the financial position in the round before committing to a decision at the appropriate point in the process. It is anticipated that Councils will be able to increase Council Tax by a maximum of £5 or 3% (whichever is higher) although this freedom is still to be confirmed.

Council Tax Base

65. In the current year we are working to an increase in the council tax base of 1.21%. Current monitoring shows that this is still realistic.

66. For 2020/21 we have forecast an increase of 1.2%. This allows for a reasonably significant increase under the District Plan regime 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.

67. The Council sets the taxbase at its December meeting.

Inflation

68. 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.

69. We are now working to the assumption that public sector pay will increase by 2% year on year.

70. Similarly, the forecasts are that general inflation is not 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 £522k (including pay inflation) each year. We can update that for next and future years when the September CPI figures are published.

Service Changes – internal and external

71. 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.

72. For 2020/21 there are some minor changes that Management Team wish to take account of. These will emerge as we develop the service plans. There are some cost pressures in relation to the District Plan and the Burgess Hill growth programme. However, the main pressures look likely to arise from cost shunting by West Sussex County Council, particularly in the Waste and Housing Services.

73. The West Sussex Cabinet is reviewing the formula for calculating recycling credits to revert 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.

74. To fully take account of this in the year would mean removing £813k of budgeted income. Initial hopes that this would be phased over two years have proved to be short lived. .

75. In the circumstances it would be prudent to budget for a reduction in 2020/21 of £813k. There is a contra-argument that not rewarding recycling may lead to an increase in the Landfill Tax in time but this is paid by the Waste Disposal Authority rather than us as the collection authority.

76. A further pressure looks likely to arise in the housing sector with the budget cuts proposed by West Sussex County Council in relation to supported housing. However, reduction in support services for vulnerable people is widely thought to lead to an increase in costs to the districts, possibly by as much as £100k pa. This is as a result of a reduction in the support services for vulnerable households particularly those with mental health and learning difficulties.

77. The inclusion of this pressure significantly unbalances our MTFS and will lead to a change in our Corporate Plan for the next two years. This, and the other cost shunting exercises being promoted, will need careful responses as and when the decisions are consulted upon and finally made.

78. There are no other service pressures at present but this will of course be kept under careful review as service plans emerge and as budget holders estimate costs for next year, this process may also present some pressures and savings which will need to be considered for inclusion in the 2020/21 budget.

Overview

79. 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 18/19 budget		(45)	
Recycling credits reduction	813		
Supported housing	100		
Contribution to Development Plan Reserve	200		
RRS income increased (1 yr only)		(1,021)	
Additional investment income		(371)	
Net change	1,113	(1,437)	(324)

80. These changes alone mean that the corresponding, cumulative, position to that set out in paragraph 18 above (and repeated below) is now:

	2020/21	**2021/22**	**2022/23**	**2023/24**
	£'000s	*£'000s*	*£'000s*	*£'000s*
Previous position	1,425	1,555	1,856	-
Net change	(324)	697	700	-
New position	1,101	2,252	2,556	2,608

81. We are therefore anticipating an unbalanced position in the next financial year and over the medium term. For 2020/21 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.

82. As described above, the outlook for 2021/22 is very unclear so it can be expected that these figures will change. Members may therefore wish to retain flexibility at this stage of 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 the MTFP in more detail.

Next Steps

83. Now we have up-dated the MTFP and estimated budget gap for 2020/21, 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 Finance and Performance Scrutiny Committee at its meeting in January 2020. 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 2020.

Policy Context

84. 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

85. 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

86. 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

87. 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

88. 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

89. None.

Background Papers