

Report to	-	Overview and Scrutiny Committee
Date	-	16 October 2017
Report of the	-	Executive Director of Resources
Subject	-	Medium Term Financial Strategy 2018/19 to 2022/23

Recommendation: It be **RESOLVED:** That the Overview and Scrutiny Committee recommend to Cabinet:

- 1) that the financial considerations considered in this report be reflected in the Council's Medium Term Financial Strategy;
- 2) that the Council maintain its policy of maximising the annual increase in Council Tax within the Government's referendum limit; and
- 3) the revised Capital Programme at Appendix C be recommended to Full Council.

Service Manager: Robin Vennard

Introduction

1. This report updates Members on the latest financial information affecting the Council's Revenue Budget, Capital Programme and Reserves. This information will be incorporated into an updated Medium Term Financial Strategy (MTFS) in December, together with any changes to the Government grant settlement. The Strategy will need to be modified as the financial situation of the Council changes over the life of the strategy. It is important that the MTFS supports the delivery of the Council's aims and objectives as set out in the Corporate Plan. Detailed below are the key issues that Members need to consider.

Revenue Budget

2. Members will already be aware of the Government's withdrawal of Revenue Support Grant (RSG) by 2020. The following table shows the reduction in support:

	2017/18	2018/19	2019/20	2020/21
	£	£	£	£
Revenue Support Grant	449,570	72,500	-	-
Rural Services Delivery Grant	49,271	37,901	49,271	-
Transition Grant	71,383	-	-	-
Total Government Grant	570,224	110,401	49,271	0

3. There is very little information to guide the Council beyond 2019/20 and therefore Members need to bear this in mind when considering the financial forecasts discussed later in this report.

4. **New Homes Bonus Grant** – Members will also be aware of concern over the future of New Homes Bonus Grant. It is certain that changes will be brought in that will reduce the amount of grant the Council receives until 2019/20. It is considered likely that beyond 2020 this grant will be removed. The 2017/18 Revenue Budget relies on £1m of the £1.117m received. The five year forecast assumes that reliance will be reduced so that by 2021/22 there will be no reliance on this funding. If the funding continues beyond this date, then it is suggested that this can be used to support affordable housing development in the district.
5. **Business Rates** – The Government announced in September that they would be inviting more pilots for 100% retention of business rates. So far the pilots have been focused on cities/unitaries and the Government is keen to expand the pilots into two tier areas. This is despite there being no mention of 100% business rate retention in the Queen's speech following the 2017 General Election. Discussions have taken place between all East Sussex Councils as to whether to submit an expression of interest in returning to a rate pool and whether to volunteer to be a pilot area for 100% retention. This needs to be done by the 27 October but is not binding at this stage. Under delegation, the Service Manager – Finance and Welfare and the Cabinet Portfolio Holder – Finance, Resources and Value for Money have confirmed with the other East Sussex Councils their support for a business rate pool, but at this stage not a pilot, due to a number of reasons, including the lack of feedback from existing pilots. If it appears financially sensible, final confirmation of the pool will be made to the Department for Communities and Local Government early in 2018. Still in relation to business rates, the 2017 revaluation of business rates by the Valuation Office Agency came into effect in April 2017. The amount currently under appeal for the Rother area and the trend for settlement rates are not known at this point in time and therefore making provision for appeals will be difficult.
6. **Council Tax** – As Council Tax is a major source of income to the Council, the MTFS assumes that the Council will increase Council Tax by the maximum allowed before a referendum is required. The forecast applies a £5 per annum increase (assuming the Government continue with this commitment) which will see the Council Tax rise from its current £169.32 to £194.32 by 2022/23. This increase equates to additional annual income in the region of £1.1m per annum based on the 2017/18 taxbase.
7. **Council Tax Reduction Scheme** – Discussions have been taking place with councils across the county regarding the Council Tax Reduction Scheme. Current thinking is to maintain the existing scheme for 2018/19 (updated for any relevant national changes) and to develop a new scheme for 2019/20. Over time the existing scheme has diverged from housing benefit regulations and is becoming harder to administer. Options for the 2019/20 scheme will be developed in partnership with the other East Sussex Councils which will be presented to Overview and Scrutiny Committee (OSC) later this year. These options will need to be extensively consulted on in the summer of 2018 for a final decision by full Council in December 2018. For the purposes of the financial forecast it is assumed that whatever scheme is put in place for 2019/20 onwards the amount of relief given is similar to that currently granted.
8. **Property Investment Strategy** – Cabinet has recommended that the Council adopt a Property Investment Strategy (Minute CB17/28 Refers) which is designed to deliver an annual financial return of approximately £350,000 to

the Council to help support the Revenue Budget based on an initial investment amount of £7m. This will be considered by full Council at its December meeting.

9. **Inflation** – Reviewing inflation forecasts suggests that CPI and RPIx (the main indices used in council contracts etc.) will be increasing for 2018/19 as shown below:

INFLATION INDEX	FORECAST
CPI	3%
RPIx	4%

Source: HMT - Average of forecasts - Macroeconomic Co-ordination & Strategy Team

10. **Pay inflation** – Has been assumed at 1% for the financial forecast, although Members agreed an increase of 1.5% for 2017/18. With upward inflation pressures there is a greater risk of pay settlements increasing. In 2018/19 for each 1% increase it is estimated to cost an additional £89,000 to the Council based on the current workforce.
11. Taking these factors into account the latest financial forecast is suggesting there will be a shortfall peaking at £1.7m by 2021/22:

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
FUNDING GAP	290	500	1,400	1,700	1,700

12. To respond to the funding cuts and other financial challenges, Members will be aware of the Rother 2020 plan which supports the MTFS. The Plan forms the basis of the Council's sustainability and efficiency plan approved by Cabinet on 3 October 2016 (Minute CB16/36 refers) and describes how the Council will be operating by 2020. This Plan mirrors the Government funding settlement and was a requirement to secure the funding.
13. The main work streams within the plan prioritisation of services, managing demand, lean services, organisational form and increased income are all underway. Some of these activities will require investment and this has been reflected in the Capital Programme (Appendix C). As part of treasury management activities, an additional £100,000 of income has been secured from the Council's investment of surplus cash with the Churches, Charities, Local Authorities' (CCLA) Property Investment Fund. This is expected to continue into 2018/19 and therefore has reduced the target saving down to £1.7m from the previously reported £1.8m. The financial saving targets have been reviewed and the latest projection is shown below:

WORKSTREAMS WITH FINANCIAL EFFECTS	SAVING/INCOME TARGET (£)
Cost Reduction – Prioritisation of Services, Managing Demand, Lean Services, Organisational Form	£800,000
Increased income	
Property Investment Strategy	£350,000
Other measures	£550,000
Total	£1,700,000

14. A summary of progress is shown at Appendix B. The focus for the next financial year is to realise additional income for the Council. Whilst work has commenced, it is anticipated that those areas looking at reducing expenditure will primarily deliver their savings towards the latter part of the planned period.
15. If the Rother 2020 programme delivers the planned income and savings then the financial forecast shows that by 2021/22 the Revenue Budget will be in surplus:

	2018/19	2019/20	2020/21	2021/22	2022/23
	£	£	£	£	£
FUNDING GAP	(150)	(901)	(178)	292	438

16. In order to achieve a balanced budget over the next three financial years, it is therefore assumed that £1.229m of reserves will be required. However, if the Rother 2020 Programme does not deliver the savings/income or are achieved later than planned, further use of reserves is likely.

Budget Consultation

17. In the 2017/18 Budget consultation, the Council set out its expected finances over the next five years including what it anticipated would be the resultant council tax charges. As indicated above the forecast assumes an increase of £5 (at Band D) each year over the life of the MTFS. Given the financial gap in 2018/19 to 2021/22, it is not proposed to change this policy. It may be possible to change this policy from 2021/22 based on the financial forecast. It is proposed to continue the dialogue with residents and businesses regarding service priorities to help inform any decisions regarding changes to service delivery or the cessation of services should it be necessary. The consultation will be promoted in a number of ways including:
 - a. through the Council Website, Social Media and Twitter;
 - b. use of the Rother Citizens Panel; and
 - c. direct contact with the Chambers of Commerce and Federation of Small Businesses.
18. The results of the consultation will be analysed and reported to Members. An interim update will be reported to Cabinet at its December meeting and the final position reported to the OSC at its January 2018 meeting. A draft consultation will be developed and presented to Cabinet at its meeting on the 6 November 2017.

Capital Programme

19. An updated Capital Programme is shown at Appendix C. This reflects the initial investment requirements for Rother 2020 and the Property Investment Strategy of £7m referred to above.
20. **Leisure and Swimming Centre project** – Members received a report at their September meeting which outlined the current position with regard to the acquisition of these various assets that make up this development site. The capital programme assumes the land swap deal with East Sussex County Council will be concluded this financial year. The programme has also been increased by £2m to enable the site assembly to be completed subject to the

above being concluded. At present, the entire £2m has been programmed in for 2018/19.

21. **Rother 2020 ICT investment** – In support of the Rother 2020 Programme, investment in ICT has been recognised to help realise the improvements that will be identified through the lean and demand work. In addition, the replacement finance and HR systems will deliver efficiencies and flexibilities to the workforce and Members.
22. **Community Housing Funding** – Members will recall, the Council received £750,000 of grant funding towards establishing the infrastructure to deliver community led housing schemes. So far during 2017/2018 £100,000 of the funding has been used to implement the Service Level Agreement with Action in Rural Sussex to take forward the East Sussex Community Housing Hub. This will be treated as revenue expenditure. A further £10,000 of this fund will be expended before the end of 2017/18, towards meeting any shortfall in funding experienced at the pre-planning stage of a community led housing scheme in Rother. In 2018/2019, it is estimated that around £390,000 of Community Housing Fund will be allocated towards delivery of a 15 dwelling housing scheme.
23. **Waste Contract** – Whilst not currently shown in the draft capital programme, officers are currently exploring the funding options for the new contract from 2019/20. It is likely that the Council can utilise access to low cost finance to provide the equipment and vehicles for the contract. Advice is currently being sought from the Council's advisors, Capita Asset Services. Any proposals will form part of Members considerations for the new contract.
24. **Projected Property Assets Sales** – Sales of three assets have been concluded so far this financial year with a further five in progress. The value in total is in the order of £300,000 in total receipts. In addition, the Council continues to seek realisation of the value of its landholdings at the Blackfriars site in Battle. Reliance has not been placed on the proceeds from the sale of these assets in funding the capital programme.
25. Future funding of the Capital Programme will need to focus on a multitude of funding sources including grants, community infrastructure levy, internal borrowing (from the Council's own cash) and external borrowing. Funding will be assessed as proposals come forward to Members for approval.

Reserves

26. As at 31 March 2017, the Council has £14.9m of Earmarked Reserves and £2.95m of Capital Reserves. Of the £14.9m, just under £5.6m relates to the MTFS Reserve. To support the Property Investment Strategy it is assumed that up to £7m of earmarked reserves are planned to be released from their current purpose. Additionally, if required, reserves can be used to support the Revenue Budget to deal with the gap in return on the investments outlined above and delays in delivering on saving targets early in the life of this strategy. The financial forecast shows that over the five years Earmarked Reserves will fall to a minimum of £4m and increase to £4.5m by 2022/23. This assumes the £7m referred to above is fully funded from Earmarked Reserves. However Members have previously agreed to utilise the proceeds from asset sales for reinvestment in income earning assets. Therefore as asset sales are concluded during 2017/18 and 2018/19 this will replace a

similar amount of Earmarked Reserves used to fund the Property Investment Strategy.

Conclusion

27. The need to address the reduction in Government funding and balance this with the ambition to deliver the best services the Council can, along with the aim to continue to invest in the district, is a significant challenge. The Rother 2020 plan is designed to meet this challenge and see the Council achieve financial sustainability and as such forms the central focus for the new MTFS. The level of Council reserves is an enabler to ensure the MTFS can be delivered over the next five years despite the uncertainty beyond 2019/20.

Malcolm Johnston
Executive Director of Resources

Risk Assessment Statement

The MTFS is now focused on achieving financial self-sustainability for the Council. If the Council is to achieve this, particularly through investment in the local economy, then its risk appetite will need to increase. This brings the prospect of achieving greater returns on investments but also the potential for losses. With sound and robust investment appraisal processes these risks can be minimised but will not be eliminated.

Rother District Council
2017/18-2021/22 Medium Term Financial Strategy

	2017/18 Budget £ (000)	2018/19 Budget £ (000)	2019/20 Budget £ (000)	2020/21 Budget £ (000)	2021/22 Budget £ (000)	2022/23 Budget £ (000)
Community and Economy	4,200	4,159	4,279	4,411	4,547	4,714
Corporate Services and Human Resources	1,129	1,195	1,270	1,205	1,210	1,214
Corporate Core	817	780	780	780	780	780
Environmental Services	546	505	495	495	495	495
Finance and Welfare	2,718	2,715	2,715	2,715	2,715	2,715
ICT and Customer Services	1,876	1,876	1,846	1,846	1,846	1,846
Strategy and Planning and Development	898	799	799	849	799	799
Total Cost of Services	12,184	12,029	12,184	12,301	12,392	12,563
Interest from Investments	(235)	(300)	(300)	(300)	(300)	(300)
Contingency items - Salary inflation		89	178	269	360	452
Savings/additional income to be achieved from Rother 2020 Programme						
(i) Expenditure savings from Service Prioritisation, Demand Management, Lean and Organisational Form				(500)	(800)	(800)
(ii) Increase income		(290)	(500)	(900)	(900)	(900)
Waste Collection and Street Cleansing Contract			750	750	750	750
Capital Expenditure Charged to Revenue	2,021	7,374	143	130	130	130
Net Cost of Services	13,970	18,902	12,455	11,750	11,632	11,895

	2017/18 Budget £ (000)	2018/19 Budget £ (000)	2019/20 Budget £ (000)	2020/21 Budget £ (000)	2021/22 Budget £ (000)	2022/23 Budget £ (000)
Parish Precepts	1,573	1,319	1,319	1,319	1,319	1,319
Special Expenses	(715)	(728)	(743)	(757)	(772)	(772)
Business Rates						
Local Share of business rates	(7,125)	(7,268)	(7,413)	(7,562)	(7,713)	(7,867)
s31 Grants	(836)	(853)	(870)	(887)	(905)	(923)
Tariff	4,783	4,879	4,976	5,492	5,601	5,714
Levy payment on account	392	400	408			
Revenue Support Grant	(450)	(73)				
Non-Specific Revenue Grants						
New Homes Bonus Grant	(1,117)	(702)	(405)	(73)	0	0
Rural services delivery grant	(49)	(38)	(49)			
Transition Grant	(71)					
New Burdens Grant	(3)					
Local Council tax Support Grant	(108)	(108)	(108)	(108)	(108)	(108)
Benefits Administration Grant	(257)	(257)	(257)	(257)	(257)	(257)
Council Tax Requirement (Parishes and Rother)	(7,883)	(7,949)	(8,269)	(8,609)	(8,959)	(9,309)
Other Financing						
Collection Fund (Surplus)/Deficit	(120)	0	0	0	0	0
Contributions to/(from) Earmarked Reserves	(1,984)	(7,524)	(1,044)	(308)	162	308
Contributions to/(from) General Fund Balance	0	0				
Total Income	(13,970)	(18,902)	(12,455)	(11,750)	(11,632)	(11,895)
Total	0	0	0	0	0	0
Council tax Requirement	(6,310)	(6,630)	(6,950)	(7,290)	(7,640)	(7,990)
Divided by Council Tax Base (Band D Equivalent)	37,260.97	38,006.19	38,766.31	39,541.64	40,332.47	41,139.12
Council Tax Charge	169.32	174.32	179.32	184.32	189.32	194.32
	6,309,027	6,625,239	6,951,575	7,288,315	7,635,744	7,994,154

Reserves	2017/18 Budget	2018/19 Budget	2019/20 Budget	2020/21 Budget	2021/22 Budget	2021/22 Budget
	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)
Earmarked Reserves and General Reserves	14,901	12,917	5,393	4,349	4,041	4,203
Use of Reserves	(1,984)	(7,524)	(1,044)	(308)	162	308
Total Reserves	12,917	5,393	4,349	4,041	4,203	4,511
<u>Analysis of (Use of)/Contribution to reserves</u>						
To fund capital expenditure	(2,021)	(7,374)	(143)	(130)	(130)	(130)
Local Development Framework	(150)					
Estates staffing	(19)					
Revs and Bens improvement plan	(21)					
New Homes Bonus grant over £1m	117					
Use of carry forward	(113)					
Contributions to reserves	223				292	438
To balance the budget		(150)	(901)	(178)		
TOTAL	(1,984)	(7,524)	(1,044)	(308)	162	308

Rother 2020 Programme – Progress as at September 2017

Work stream	Lead Officer	Progress
Establishing Value and Prioritisation of Services	Brenda Mason/ Robin Vennard	<ul style="list-style-type: none"> •Initial identification, analysis, weighting, scoring and prioritisation of services carried out •Grouping of functions carried out •Functions cross-linked to budget cost centres
Managing Demand	Richard Parker Harding	<ul style="list-style-type: none"> •LGA funding for consultancy support applied for and achieved •Consultant appointed (Social Engine) •Initial workshop delivered by Social Engine •Demand project team formed •Data gathering: Email, telephone, website, documents, face-to-face - nature of contacts (e.g. revs and bens, waste etc.) as a percentage of overall contacts made, and to determine volume •Internal communications tool 'Yammer' piloted within the Demand team to reduce emails - this is being monitored. Also a 'public' group is available for officers to join to keep up to date with the work of the Demand Team. •Garden Waste: reduce cheques and increase Direct Debit: letter reviewed - 2,000 more DDs taken up, 512 less cheques - initial savings of £5,500
Lean Services	Tony Leonard	<ul style="list-style-type: none"> •Resource identification and allocation •Training for Lean methodology approach and Value Process Mapping (VPM) •All service managers to introduce a 'Lean' approach to services to identify efficiencies as part of service delivery - an early achievement is Planning Notices review, saving £3,500 in printing and laminating costs •May to September 2017 - VPM completed for 32 functions across Revs and Bens, Planning, Housing Needs and Environmental Health •Service Manager feedback form (pro forma) created for identifying issues, proposing recommendations for change to achieve efficiency savings •Lean VPM recommendations log created to collate all actions and track progress (will help to inform finance and IT at monthly meetings)

Work stream	Lead Officer	Progress
Organisational Form	Tim Hickling	<ul style="list-style-type: none"> •Model Analysis & Priority Map drafted and approved •Organisational Form Action Plan created using High and Medium priorities from the analysis •Building control transfer project (Wealden/East Sussex) (estimated annual saving of £55,000 to be built into the revenue budget)
Increased Income	Malcolm Johnston	<ul style="list-style-type: none"> •Identified projects for further investigation •Analyse, prioritise and plan identified projects •Investment Strategy Phase 1 - £100k estimated interest •Property Acquisition - Asset management - £350k estimated income - OSC 11 Sept 2017 •Establish SPV for Energy Related Projects - initial research and planning •Property Company - initial research and planning
ICT/Data		<ul style="list-style-type: none"> •DIP (Document Image Processing) supplier/developer commissioned and initial requirements and training delivered •Firmstep CRM (customer resource management) under development to replace existing system and provide greater integration with other systems in use •Website Focus Group established to review, improve and develop the way in which customers access and interact with our services •ERP project – Financial, payroll and HR system to be introduced April 2018, combining current systems into one, creating efficiencies.
Engage and Communicate		<ul style="list-style-type: none"> •All staff briefings Sept and Oct 2016 •Report to OSC – Sustainability and Efficiency Plan – Oct 2016 •Call out for staff volunteers to develop and deliver projects – Nov-Dec 2016 •Service Manager briefing on Rother 2020 Programme framework and governance – Mar 2017 •LGA Peer review challenge – Jul 2017 •RIBS updated for sharing background and progress with staff •All staff event to include more information on Rother 2020

Rother District Council Capital Programme Summary

		2017/18 Budget £ (000)	2018/19 Budget £ (000)	2019/20 Budget £ (000)	2020/21 Budget £ (000)	2021/22 Budget £ (000)	2022/23 Budget £ (000)
Community and Economy							
Community Grants		130	130	130	130	130	130
De La Warr Pavilion - Capital Grant		51	52	0	0	0	0
Land Swap re Former High School Site		1,085	0	0	0	0	0
Bexhill Leisure Centre		190	2,000	0	0	0	0
Galley Hill Playground		37	0	0	0	0	0
Contribution to Affordable Housing funded by s106		133	0	0	0	0	0
New bins		13	13	13	0	0	0
Beach Huts	Rother 2020	25	95	0	0	0	0
Property Investment Strategy	Rother 2020	0	7,000	TBD	TBD	TBD	TBD
Corporate Services and Human Resources							
Delegate Conference System	Rother 2020	50	0	0	0	0	0
Corporate Core							
Corporate Document Image Processing System	Rother 2020	350	0	0	0	0	0
Finance and Welfare							
Disabled Facilities Grant		1,791	TBD	TBD	TBD	TBD	TBD
Enterprise Resource Planning System upgrade	Rother 2020	500	0	0	0	0	0
ICT and Customer Services							
IT SAN replacement		160	0	0	0	0	0
IT Essential Maintenance Programme		266	0	0	0	0	0
Rother 20/20 ICT Investment	Rother 2020	300	200	0	0	0	0
Total Cost of Services		5,081	9,490	143	130	130	130

	2017/18 Budget £ (000)	2018/19 Budget £ (000)	2019/20 Budget £ (000)	2020/21 Budget £ (000)	2021/22 Budget £ (000)	2022/23 Budget £ (000)
Funded By:						
Capital Receipts	1,136	2,052	0	0	0	0
Grants and contributions	1,924	0	0	0	0	0
Capital Expenditure Charged to Revenue	2,021	7,438	143	130	130	130
Total Funding	5,081	9,490	143	130	130	130