

Report to	-	Overview and Scrutiny Committee
Date	-	15 October 2018
Report of the	-	Executive Directors
Subject	-	Medium Term Financial Strategy 2019/20 to 2023/24

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; and
 - 2) that the Council maintain its policy of maximising the annual increase in Council Tax within the Government's referendum limit.
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Introduction

1. This document sets out the initial forecast budget for 2019/20 and updates the Medium Term Financial Strategy (MTFS) for the period 2019/20 to 2023/24. This is an early view of the Council's likely finances over this five year period, ahead of confirmation of Government funding and a number of other factors that will affect the Council's finances.
2. Members will be aware that since 2010 the Council has made significant savings, to enable it to manage increased demand for vital services such as homelessness and central Government's continued reduction in funding across local government. The financial challenges continue and the Council will be required to take measures, set out in this document, to create a balanced budget as required by law.

Budget Process

3. This year the Council will follow a new budget process which embraces the new technology from the financial system and allows the Council to spread the workload of identifying and implementing savings earlier and keeping continued focus on its finances to ensure variances to budget are identified quickly and addressed.
4. The first phase of the budget process is the MTFS which sets out the areas of budgetary pressure and estimates the size of the budget deficit over the next 5 years.
5. The second phase of the budget process will be the draft budget report to Cabinet in December 2018, which will bring forward a list of proposals over the next 5 years to ensure a balanced revenue budget.
6. The third phase will commence in January 2019, once the Government settlement has been announced. The proposed savings brought forward in December will need to be agreed and the Capital Strategy and Revised Capital Programme will be prepared and incorporated into the MTFS for approval by Cabinet and Full Council in February 2019.

2019-20 Local Government Settlement

7. To remind Members the Council has seen its Revenue Support Grant (RSG) fall from £1.8m in 2015/16 to zero in 2019/20, see table below.

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	Total Change
Revenue Support Grant	1,800	1,073	450	73	0	(1,800)
New Homes Bonus	1,329	1,660	1,123	714	417	(912)
Retained Business Rates	2,946	2,874	2,983	2,948	3,009	63
	6,075	5,607	4,556	3,735	3,426	(2,649)
Council Tax Income	5,756	6,048	6,310	6,580	6,770	1,014
	11,831	11,655	10,866	10,315	10,196	(1,635)
Annual reduction		(176)	(789)	(551)	(119)	

8. In cash terms, since reduction in income Government grant is impact that inflation costs, which has pressure.

2015/16 the overall from taxation and £1.635m. This excludes the has had on the Council's added a further cost Considering the CPI index in

August 2015 was 100.3 and CPI index in August 2018 was 106.5, this represents a 6.2% increase in costs (£0.7m) that has not been met by increased Government grant.

9. The 2016-17 local government settlement offered councils a four year settlement for RSG; Business rates tariff and top-up payments, Rural Services Delivery Grant and Transition Grant. Rother accepted this in return for producing its 2020 efficiency plan. Barring exceptional circumstances, the Government intends to present these figures to Parliament as part of the Provisional Local Government Finance settlement following the Autumn Budget.

Non Domestic Rates (Business Rates)

10. The forecast makes provision for a small overall increase in the amount of business rates (£3m) retained by the Council. However, the Government has recently launched a prospectus that invites local authorities to submit proposals to pilot 75% business rates retention in 2019/20. Rother, as part of the East Sussex Business rates Pool, has submitted an expression of interest to the Government. The advantage of this pilot is that Rother will retain a greater share of any business rates growth, as currently only 50% is retained. If the Government accepts the East Sussex expression of interest, then further reports will be made to Members detailing the financial effect and the governance arrangements. Ahead of any decision, no provision has been made for additional income from the pilot 75% business rate retention scheme.

New Homes Bonus Grant

11. The New Homes Bonus was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. In December 2016 the Government announced a reduction of the number of years new homes bonus is paid to 5 in 2017-18 and 4 in 2018-19. They also introduced a national baseline for growth of 0.4% of council tax base and payments of the bonus would only be made above this level. The Government expects this baseline to increase in 2019-20 which is also the final year of funding agreed through the Funding Review 2015. It is the Government's intention to explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward or incentivise plans that meet or exceed local housing need. Government will consult on any changes prior to implementation. The five year forecast assumes that reliance on New Homes Business Grant will be reduced so that by 2021/22 there will be no reliance on this funding.

Cost Pressures

12. **Homelessness demands** – the last year has been particularly challenging for councils, as the number of homeless households up and down the country has grown substantially. Rother has seen a significant increase in households presenting themselves as homeless to the Council. The Council's gross cost of providing emergency and temporary accommodation has risen from £0.261m in 2015/16 to £0.670m in 2017/18. It is predicted that the base revenue budget will have to increase by a further £72,000 (net of housing benefit) in 2019/20 based on the first six months of spending in 2018/19.
13. As considered by the Housing Task and Finish Group, the Council is undertaking and considering a number of measures to improve the outcome for the homeless and reduce the Council's costs. This will be reported through updates to Members on progress with the recommendations made by the Housing Task and Finish Group and any financial implications considered later in the budget process.

14. **Waste Collection and Street & Beach cleaning** – at the time of writing the report the cost of the re-tendered waste contract is unknown. Final tenders are due to be returned on the 15 October and following assessment, the outcome will be reported to the Joint Waste Committee on the 30 November 2018, then onto Cabinet and Full Council. Provision was made in the previous MTFS for an increase in costs of £750,000. In addition, the Council will lose recycling credit payments in excess of £600,000 from East Sussex County Council under the proposed arrangements for dealing with recyclable material. For the purposes of this report a working assumption of an increase of £1.3m in contract costs will be required, although based on discussion with prospective contractors, it is possible that this will be significantly short of the final increase.
15. **Staffing Costs** – the budgeted cost of staff for 2018/19 when the revenue budget was set in February 2018 was £9,172,060. Pay inflation has been assumed at 2% for 2019/20 and 2020/21 and 1% thereafter. Members have already agreed an increase of 2% for 2018/19 (September). With upward inflation pressures there is a greater risk of pay settlements increasing. In 2019/20 for each 1% increase it is estimated to cost an additional £95,000, based on the current workforce. In addition, the annual staffing budget increases as officers progress through their relevant payscale.
16. In addition there has been an increase in the staff establishment on an invest to save basis to support the delivery of the Rother 2020 Programme. Overall the estimated budget for 2019/20 is £9,537,020 an increase of £364,960.
17. **Non Pay Inflation** – inflation forecasts suggest that CPI is the main index used in council contracts and will be increasing for 2019/20 as shown below:

2019/20	
CPI	2.10%
RPI	3.00%

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

Summary Estimated Revenue Budget 2019/20

18. The table below shows how the overall revenue budget position for 2019/20 has moved from that reported to Council in February 2018 taking account of the budget pressures detailed above and changes to council tax, business rates and grant income.

	2019/20 Budget	Revised 2019/20 Budget	Variance
	£ (000)	£ (000)	£ (000)

Net Cost of Services 2019/20 as at February 2018	12,725	12,821	96
Explanation of movement			
Interest from investments	(512)	(512)	0
Increased income from property investments (net of interest payments and MRP)	(547)	(458)	89
Cost of Waste Collection - new contract	750	1,360	610
Capital Expenditure	143		(143)
Salary Budgets (including pension lump sum)	9,264	9,537	273
Reserve funded car parks	114	0	(114)
Appendix C savings	0	(653)	(653)
Other Variations	(34)	0	34
Total			96
Total Income	(11,740)	(11,351)	389
Council Tax	(8,449)	(8,319)	130
Collection Fund Deficit	0	273	273
Flexible Homeless Support Grant	(203)	(275)	(72)
Business rates	(3,067)	(3,009)	58
Total			389
Total Movement			485

Rother 2020 Programme - Income generation and cost savings

19. The Rother 2020 programme set out a number of workstreams designed to deliver an overall reduction in the base revenue budget to meet the expected budget deficit. This will be achieved through greater efficiency in service delivery, additional income and ultimately, if required, a reduction in the number and scope of services to be delivered.

Income Generation

20. **Property Investment Strategy** – the Council put forward an ambitious plan to invest £35 million (through borrowing) in property within the District to regenerate its economic regeneration aspirations and also to provide an income source for the Council.
21. The original budget for 2019/20 included net income of circa £550,000. Significant progress has been made, one site has been purchased and a further six sites are being progressed for decision by the Property Investment Panel. The income has been re-profiled in the MTFS and as sites are secured the forecast will be updated for the increased income.
22. **Car Parking** - the Traffic Management Act 2004 allows local traffic authorities to apply to the Secretary of State for Transport for a Civil Enforcement Area Order, de-criminalising parking enforcement and introducing civil parking enforcement powers. This is expected to be adopted in Rother by April 2020. East Sussex County Council will employ an enforcement contractor to carry out enforcement on its behalf, paid for by parking permit charges, pay and display parking charges and revenue from penalty charge notices.
23. The effect of this parking enforcement is to change parking habits in the district with increased access to on-street parking for short periods and increased usage of Council car parks. Consideration is being given to any investment needs and increased maintenance requirements in car parks going forward. Based on recent parking usage, it is possible to increase the income budget by £250,000 and this is shown in the savings outlined in Appendix C.

Council Tax

24. 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 2.99% increase which will see the Council Tax rise from its current £174.32 to £179.55 for 2019/20 and ultimately to £199.53 by 2023/24. This increase equates to additional annual income in the region of £0.200m per annum based on the 2018/19 taxbase. This is based on the Council tax referendum principles proposed for local authorities of up to 3% or up to and including £5, whichever is the higher, above which a referendum would have to be held.
25. For the purposes of the financial forecast, it is assumed that whatever Council Tax Reduction Scheme is put in place for 2019/20 onwards, the amount of relief given is similar to that currently granted. Members are aware the proposed changes

to the scheme are currently out for consultation and will be considered by this Committee at its meeting on 26 November 2018.

Cost Saving

26. **Lean and Demand** – considerable progress has been made with the lean and demand reviews undertaken so far. Almost £100,000 of savings has been identified to date from lean and demand reviews and this has been built into the forecast. Services reviewed include Housing, Planning and Environmental Health. It is planned that part of this saving will be achieved through a recruitment freeze as services are restructured to take account of these efficiencies.
27. **Procurement** – Rother are members of the East Sussex Procurement Hub (ESPH), hosted by Wealden District Council. The benefits of being members of the ESPH is that we can engage in collaborative procurement arrangements with the other members and benefit from the economies of scale that arise.
28. In order to gain the maximum benefit from the ESPH it is important to review Rother's historic spend in order to facilitate collaborative procurements going forward to the mutual benefit of the partners. To this end, Rother are conducting a spend analysis of the last 3 years.
29. Further details on this and potential savings will be brought forward in phase II and phase III of the budget setting process.
30. **Service Prioritisation** – given the scale of the financial deficit, it will be necessary over the coming financial year to consider the scope and number of services the Council provides. The Rother 2020 programme recognises this and includes a workstream on service prioritisation. Some initial work was undertaken in 2017/18 and this will need to be updated and further developed into a deliverable policy. It is suggested that officers will carry out the initial assessment and present proposals to Members during the autumn of 2019.

Five year forecast

31. Taking the above into account the MTFS has been updated to show the financial forecast for the next 5 financial years. The forecast suggests there will be a shortfall of £0.253m by 2023/24:

	2019/20 Budget £ (000)	2020/21 Budget £ (000)	2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)
Funding Gap	1,470	1,210	869	556	253

32. The detailed forecast is shown at Appendix A.

Reserves

33. The Council's usable reserves are expected to be £18m by the 31 March 2020. This is analysed in the table below with further details at Appendix B. This excludes any use of reserves for capital.

Reserve	Estimated balance 31 March 2019 £'000
General Fund Balance	1,000
Earmarked Reserve	14,136
Capital Reserves	3,786
Total Reserves	18,922

34. The current MTFS estimated that £1.8m of reserves would be needed to support the revenue budget over the next 5 years. Due to the estimated increases in costs (in particular the new waste collection contract) outlined in this report, the latest forecast increases the use of reserves to £4.4m between 2019/20 and 2023/24. Given the expected total balance of reserves of £18.9m by the end of March 2019, this still can be accommodated if required.

Budget Consultation

35. The Council is required to consult on its budget and council tax proposals with its residents and local businesses. The opinions of residents, partner organisations, businesses and other interested parties are an important part of the budget setting process. It is planned to consult between November and the end of December 2018. The outcome of the consultation will be reported to this Committee on the 28 January 2019. A draft consultation will be presented to Cabinet at their meeting on the 5 November 2018.

Conclusion

36. 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. Despite many pressures, the Council has been able to deliver a balanced budget via sound financial management, which has been recognised by external auditors. With the level of reserves and a commitment to sensible borrowing the Council has created an ability to

invest in its area, transform the delivery of its services and find new ways of working to create a sustainable budget going into 2019/20. However, this report shows there is considerable work to be undertaken and difficult decisions will inevitably have to be made to achieve this.

Malcolm Johnston & Dr Anthony Leonard
Executive Directors

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 may need to continue 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
2018/19-2022/23 Medium Term Financial Strategy

	2018/19 Budget £ (000)	2019/20 Budget £ (000)	2020/21 Budget £ (000)	2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)
Executive Directors & Corporate Core	2,043	2,078	2,080	2,081	2,083	2,084
Environmental Services	740	729	729	729	729	729
Strategy and Planning	930	964	964	964	964	964
Acquisitions, Transformation and Regeneration	376	335	336	337	338	340
Housing and Community Services	5,420	6,833	6,942	7,055	7,169	7,286
Resources	3,286	3,433	3,432	3,433	3,433	3,433
Total Cost of Services	12,795	14,372	14,483	14,599	14,716	14,836
Interest from Investments	(362)	(512)	(512)	(512)	(512)	(512)
Capital Expenditure Charged to Revenue	2,360					
2020 Savings						
(i) increase income - investment in property fund £3 million	(150)					
(ii) Increase income - investment in property	(240)	(876)	(2,257)	(2,257)	(2,257)	(2,257)
(iii) MRP	0	121	871	871	871	871
(iv) Interest payments	97	297	694	677	660	660
Budget Pressures						
Homelessness		72	72	72	72	72
Salary Inflation			191	97	98	99
Financial Savings - Appendix C		(653)	(686)	(686)	(686)	(686)
Net Cost of Services	14,500	12,821	12,857	12,861	12,962	13,083

	2018/19 Budget £ (000)	2019/20 Budget £ (000)	2020/21 Budget £ (000)	2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)
Parish Precepts	1,549	1,549	1,549	1,549	1,549	1,549
Special Expenses	(715)	(728)	(743)	(757)	(772)	(772)
Business Rates						
Local Share of business rates	(7,141)	(7,290)	(7,436)	(7,585)	(7,737)	(7,891)
s31 Grants	(1,350)	(1,378)	(1,406)	(1,434)	(1,462)	(1,492)
Tariff	4,926	5,029	5,130	5,232	5,337	5,444
Levy payment on account	617	630	643	655	669	682
Revenue Support Grant	(73)		0	0	0	0
Non-Specific Revenue Grants						
New Homes Bonus Grant	(714)	(417)	(84)	(12)	0	0
Rural services delivery grant	(38)	(49)	0			
Local Council tax Support Grant	(100)	(100)	(100)	(100)	(100)	(100)
Benefits Administration Grant	(233)	(233)	(233)	(233)	(233)	(233)
Homelessness Grant - New Burdens	(41)	(43)	(43)	(43)	(43)	(43)
Flexible Homeless Support Grant	(203)	(275)	(275)	(275)	(275)	(275)
Council Tax Requirement (Parishes and Rother)	(8,129)	(8,319)	(8,649)	(8,989)	(9,339)	(9,699)
Other Financing						
Collection Fund (Surplus)/Deficit	(5)	273	0			
Contributions to/(from) Earmarked Reserves	(2,850)					
Contributions to/(from) General Fund Balance	0	0	0			
Total Income	(14,500)	(11,351)	(11,647)	(11,992)	(12,406)	(12,830)
Funding Gap	0	1,470	1,210	869	556	253

Estimated Use of Earmarked Reserves

	2018/19 Estimated outturn £ (000)	2019/20 Budget £ (000)	2020/21 Budget £ (000)	2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)
Earmarked Reserves and General Fund balance	16,731	15,606	14,136	12,926	12,057	11,502
Use of Reserves	(1,125)	(1,470)	(1,210)	(869)	(556)	(253)
Total Reserves	15,606	14,136	12,926	12,057	11,502	11,249

Savings and Additional Income

	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £
<u>Efficiencies</u>					
Executive Directors & Corporate Core - Savings following implementation of new financial system	(23,000)	(23,000)	(23,000)	(23,000)	(23,000)
Resources - Savings following implementation of new financial system		(30,000)	(30,000)	(30,000)	(30,000)
Acquisitions, Regeneration and Transformation	(33,900)	(33,900)	(33,900)	(33,900)	(33,900)
Removal of contingencies	(80,410)	(83,410)	(83,410)	(83,410)	(83,410)
<u>Lean & Demand</u>					
Lean	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
Demand	(84,000)	(84,000)	(84,000)	(84,000)	(84,000)
<u>Other revenue savings</u>					
Charging staff costs to Capital for DFG and Capital Projects	(101,000)	(101,000)	(101,000)	(101,000)	(101,000)
Recruitment freeze enabled through Lean/Demand	(30,640)	(30,640)	(30,640)	(30,640)	(30,640)
<u>Income</u>					
Car Parking Income	(250,000)	(250,000)	(250,000)	(250,000)	(250,000)
External Funding for Syrian worker	(35,460)	(35,460)	(35,460)	(35,460)	(35,460)
Total	(653,410)	(686,410)	(686,410)	(686,410)	(686,410)