

Report to	-	Cabinet
Date	-	5 November 2018
Report of the	-	Executive Directors
Subject	-	Medium Term Financial Strategy 2019/20 to 2023/24

The Overview and Scrutiny Committee meeting held on 15 October 2018, considered a report on the Medium Term Financial Strategy 2019/20 to 2023/24. The recommendation and minute arising is reproduced below.

Recommendation: It be **RESOLVED:** That:

- 1) the financial considerations considered in the report be reflected in the Council's Medium Term Financial Strategy;
 - 2) the Council maintain its policy of maximising the annual increase in Council Tax within the Government's referendum limit; and
 - 3) an economic model of housing investment for the district be provided as part of the budget setting process / Medium Term Financial Strategy.
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OSC18/27. MEDIUM TERM FINANCIAL STRATEGY 2019/20 TO 2023/24

Members considered the report of the Executive Director which set out the initial forecast budget for 2019/20 and updated Medium Term Financial Strategy (MTFS) for the period 2019/20 to 2023/24. The report gave Members an early view of the Council's likely finances over the five year period, ahead of confirmation of Government funding and a number of other factors that would affect the Council's finances.

The Council would be following a new budget process, the first phase consisted of the MTFS, which set out the areas of budgetary pressure and estimated the size of the budget deficit over the next five years.

The second phase of the budget process would be the draft budget report to Cabinet in December 2018, which would bring forward a list of proposals over the next five years to ensure a balanced revenue budget.

The third phase would commence in January 2019, once the Government settlement had been announced. The proposed savings brought forward in December would need to be agreed and the Capital Strategy and Revised Capital Programme would be prepared and incorporated into the MTFS for approval by Cabinet and Full Council in February 2019.

The Committee's views were sought on the financial considerations outlined in the report to be reflected in the Council's MTFs and the following points were noted:

- Members were reminded that the Revenue Support Grant would cease in 2019/20. The Government had recently launched a prospectus that invited local authorities to submit proposals to pilot 75% business rates retention in 2019/20. Rother, as part of the East Sussex Business Rates Pool, had submitted an expression of interest to the Government, the advantage being that Rother would retain a greater share of any business rates growth, as currently only 50% was retained. Ahead of any decision, no provision had been made for additional income from the pilot 75% business rate retention scheme.
- **New Homes Bonus Grant** – it was noted that as the amount of funding was reducing, the five year forecast assumed that by 2021/22 there would be no reliance on this.
- **Homelessness Demands** – Rother had seen a significant increase in households presenting themselves as homeless to the Council. The Council's gross cost of providing emergency and temporary accommodation had risen from £0.261m in 2015/16 to £0.670m in 2017/18. It was predicted that the base revenue budget would 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.
- **Waste Collection** – final tenders were due to be returned on 15 October and reported to the Joint Waste Committee on 30 November. Provision had been made in the previous MTFs for an increase in costs of £750,000; in addition, the Council would lose recycling credit payments in excess of £600,000 from East Sussex County Council under the proposed arrangements for dealing with recyclable material. A working assumption of an increase of £1.3m in contract costs was therefore required.
- **Staffing Costs** – Members had agreed a 2% pay increase for 2018/19 & 2019/20 (September). With upward inflation pressures there was a greater risk of pay settlements increasing. In 2019/20 for each 1% increase it was estimated to cost an additional £95,000, based on the current workforce. In addition, the annual staffing budget increased as officers progressed through their relevant payscale. There had also 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 was £9,537,020 an increase of £364,960.
- The overall revenue budget position for 2019/20 had moved from that reported to Council in February 2018 taking account of the budget pressures detailed in the report and the changes to council tax, business rates and grant income. The total movement was £485,000.
- **Income Generation** – significant progress had been made; one site had been purchased and a further six sites were being progressed for decision by the Property Investment Panel. The income had been re-profiled in the MTFs and as sites were secured the forecast would be updated for the increased income.
- **Car Parking** – Civil Parking Enforcement (CPE) powers were expected to be adopted by April 2020 and the use of car parks was

expected to increase as a result. Consideration was being given to any investment needs and increased maintenance requirements in car parks going forward. Based on recent parking usage, it was possible to increase the income budget by £250,000, but it was acknowledged that the charging structure for car parks would need to be reviewed as part of the introduction of CPE.

- **Council Tax** – the MTFS assumed that the Council would increase council tax to the maximum allowed before a referendum was required. The forecast applied a 2.99% increase which would 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 equated to additional annual income in the region of £0.200m per annum based on the 2018/19 taxbase. This was based on the council tax referendum principles proposed for local authorities of up to 3% or up to and including £5, whichever was the higher, above which a referendum would have to be held.
- **Lean and Demand** – almost £100,000 savings had been identified to date; it was planned that part of this saving would be achieved through a recruitment freeze as services were restructured.
- **Procurement** – Rother were members of the East Sussex Procurement Hub, hosted by Wealden District Council, the benefits being that the Council could engage in collaborative procurement arrangements with the other members and benefit from the economies of scale that arose.
- **Service Prioritisation** – given the scale of the financial deficit, it would be necessary over the coming financial year to consider the scope and number of services the Council provided. It was suggested that officers would carry out the initial assessment in order to understand where priorities laid and present proposals to Members during the autumn of 2019. This would enable Members to make informed decisions about the scope and number of services the Council provided.
- **Five Year Forecast** – the MTFS had been updated to show the financial forecast for the next five financial years. The forecast suggested that there would be a shortfall of £0.253m by 2023/24. The Council's usable reserves were expected to be £18m by the 31 March 2020. This excluded any use of reserves for capital. The current MTFS had estimated that £1.8m of reserves would be needed to support the revenue budget over the next five years. Due to the estimated increases in costs (in particular the new waste collection contract) outlined in the report, the latest forecast increased 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 could be accommodated if required.
- **Budget Consultation** – the Council was required to consult on its budget and council tax proposals with residents and local businesses and this was planned for between November and the end of December 2018. The outcome of the consultation would be reported to the Overview and Scrutiny Committee on the 28 January 2019. A draft consultation would be presented to Cabinet at their meeting on the 5 November 2018.
- Announcements that had recently been made to lift the cap on councils' borrowing to provide additional housing applied only to

authorities with Housing Revenue Accounts, which did not include Rother.

- Members requested that officers provide an economic model of housing investment for the district as an addition to the recommendations to Cabinet.

The need to address the reduction in Government funding and balance this with the ambition to deliver the best services the Council could, along with the aim to continue to invest in the district, was a significant challenge. Despite many pressures, the Council had been able to deliver a balanced budget via sound financial management, which had been recognised by external auditors. With the level of reserves and a commitment to sensible borrowing, the Council had 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, the report showed there was considerable work to be undertaken and difficult decisions inevitably needed to be made to achieve this.

(Overview and Scrutiny Committee Agenda Item 6.1).

Malcolm Johnston / Dr Anthony Leonard
Executive Directors