Shadow Executive (Cabinet)

West Suffolk Council

Title of Report:	**Budget and Council Tax Setting: 2019/20 and Medium Term Financial Strategy 2019-2023**	
Report No:	**EXC/SA/19/007**	
Report to and dates:	**Shadow Executive (Cabinet)**	5 February 2019
	Shadow Council	19 February 2019
Shadow Executive Members/Portfolio holders:	Stephen Edwards FHDC Portfolio Holder for Resources and Performance **Tel:** 01799 530325 **Email:** Stephen.edwards@forest-heath.gov.uk	Ian Houlder SEBC Portfolio Holder for Resources and Performance **Tel:** 01284 810074 **Email**: ian.houlder@stedsbc.gov.uk
Lead officer:	Gregory Stevenson Service Manager (Finance and Performance) **Tel:** 01284 757264 **Email:** Gregory.stevenson@westsuffolk.gov.uk	
Purpose of report:	This report sets out details of the Council's proposed revenue and capital budgets for 2019-2023 for Shadow Executive's consideration and recommendation to Shadow Council.	

Recommendation:	It is <u>RECOMMENDED</u> that, subject to the approval of Shadow Council:- (1) the revenue and capital budget for 2019-2023 attached at Attachment A and as detailed in Attachment D, Appendices 1-5 Attachment E and F to Report No: EXC/SA/19/007, be approved; (2) having taken into account the conclusions of the Assistant Director's (Resources and Performance) report on the adequacy of reserves and the robustness of budget estimates (Attachment C) and the Medium Term Financial Strategy (MTFS) (Attachment D), particularly the Scenario Planning and Sensitivity Analysis (Attachment D, Appendix 5) and all other information contained in Report No: EXC/SA/19/007, to establish the level of council tax for 2019/20. (Note: the level of council tax beyond 2019/20 will be set in accordance with the annual budget process for the relevant financial year.); (3) the Assistant Director (Resources and Performance), in consultation with the Portfolio Holders for Resources and Performance, be authorised to transfer any surplus from the 2018/2019 revenue budget to the Invest to Save Reserve as detailed in paragraph 1.8.4, and to vire funds between existing Earmarked Reserves (as set out at Attachment D, Appendix 3) as deemed appropriate throughout the year; (4) approval be given to the Assistant Director (HR, Legal and Democratic Services), in consultation with the relevant service Assistant Director, to determine the establishment and the employment arrangements to deliver the Council's priorities within agreed budgets and the principles of the MTFS; (5) approval be given to the Flexible Use of Capital Receipts Strategy as set out in Attachment G; and (6) council tax discount be granted to care leavers in accordance with the details set out in paragraph 1.12 and Attachment H.

Key Decision:	*Is this a Key Decision and, if so, under which definition?* Yes, it is a Key Decision - ☒ No, it is not a Key Decision - ☐	
Consultation:	• As detailed in the body of this report	
Alternative option(s):	• The council is legally required to set a balanced budget.	
Implications:		
*Are there any **financial** implications? If yes, please give details*	Yes ☒ No ☐ • As detailed in the body of this report	
*Are there any **staffing** implications? If yes, please give details*	Yes ☒ No ☐ • Staffing implications are considered as part of any proposed structure changes. • Additional resources and capacity is included within the medium term budgets to reflect the council's ambitious strategic projects.	
*Are there any **ICT** implications? If yes, please give details*	Yes ☒ No ☐ • Additional ICT resource is included within the medium term budgets to reflect the council's transformation programme	
*Are there any **legal and/or policy** implications? If yes, please give details*	Yes ☒ No ☐ • As detailed in the body of this report	
*Are there any **equality** implications? If yes, please give details*	Yes ☒ No ☐ • To be considered as part of implementation of service changes	
Risk/opportunity assessment:	A risk assessment is included at Attachment C as part of the report by the Assistant Director (Resources and Performance) (Chief Finance Officer). The conclusion is that overall the estimates are robust, taking into account known risks and mitigating strategies and the reserves are adequate for the 2019/20 budget plans. Shadow Executive and Shadow Council are advised to have regard to this report when making their decisions on the 2019/20 budget.	
Ward(s) affected:	All Wards	

Background papers: *(all background papers are to be published on the website and a link included)*	**West Suffolk Medium Term Financial Strategy** WS-16-17-MTFS-2016-20-Final PAS/FH/18/039 & PAS/SE/18/035 – Approach to Delivering a Sustainable West Suffolk Budget 2019-2020 and Medium Term Plan – 28 November 2018 PAS/FH/19/006 & PAS/SE/19/006 - Approach to Delivering a Sustainable West Suffolk Budget 2019-2020 and Medium Term Financial Strategy – 31 January 2019
Documents attached:	**Attachment A:** Revenue Budget Summary **Attachment B:** Summary of major budget changes **Attachment C:** Report by the Assistant Director (Resources and Performance) **Attachment D:** (not attached) – Medium Term Financial Strategy (MTFS) 2016-20 WS-16-17-MTFS-2016-20-Final **Appendix 1:** 5 Year Revenue Budget (MTFS) **Appendix 2:** Capital Programme **Appendix 2a:** 2018/19 Capital Programme – Potential Carry Forwards **Appendix 3:** Earmarked Revenue Reserves **Appendix 4:** Prudential Code for Capital Finance **Appendix 5:** Scenario Planning and Sensitivity Analysis **Attachment E:**Strategic Priorities and Medium Term Financial Strategy (MTFS) Reserve **Attachment F:** Capital Strategy **Attachment G:** Flexible Use of Capital Receipts Strategy 2019/20 **Attachment H:** Proposed Council Tax Discount for Care Leavers

1. Key issues and reasons for recommendation(s)

1.1 Local government funding

1.1.1 In the history of local government there have been few times that have seen such a transformation in the funding of local services as the current decade. The changes are numerous and continuous, and there is little doubt that the 2020s will bring even more changes.

1.1.2 Changes include reductions in grant funding from the Government, including removal of the revenue support grant, more business rates being retained locally (and the uncertainty around how that was going to work), plus the introduction, and then reduction, of New Homes Bonus. Alongside those reductions is the lowest bank base rates for years, so the Council's income from interest is significantly reduced. In addition there is an increased demand for some services, such as support and advice relating to housing options and homelessness. Council Tax increases have been capped at 3% (previously 2%) but this local tax raises just a fifth of our income for local services. National policy encourages councils to grow their local, and therefore UK, economy by supporting business, investment and housing to bring in income. Bridging the gap between income and demand remains the single biggest challenge facing local government across the country.

1.1.3 Even within these financial challenges councils can no longer traditionally just deliver services if they are to meet the financial challenges and be able to continue to serve their communities. West Suffolk Council recognises and will take a proactive investment role, not only to meet the challenges brought by funding for councils, but also importantly to manage growth and ensure prosperity for our communities. We must, therefore, maintain the income we receive now but also deliver our investment projects, enable the building of homes and increase our business base so that we deliver new income streams to replace those lost, which will enable us to continue delivering the services and wider community support which people value and make West Suffolk an attractive place to live, work and invest.

1.1.4 As we move into 2019/20, our financial plans see further reliance on delivery of our strategic projects. As we continue to shape those projects, focusing in and around our growth agenda, we also see the ongoing development of the Investment Strategy, with the following key pieces of further work continuing to progress:

- our property asset strategy including property acquisitions, disposals, maximising the value of our existing stock, and
- place investment plans.

1.1.5 Some of the projects will need considerable investment, both in money - including creating new funds where needed through borrowing (supported by robust business cases) - resources and time, but that investment will build a more financially resilient and self-sufficient council, with less reliance on uncertain national or other funding. That focus on income-generating projects, which may span several years before they deliver a return, means we no longer look simply to balance a budget for one year. Importantly these economic growth projects will bring wider long term benefits to our areas than purely financially robust councils, such as jobs, better health outcomes and investment in working with communities and place based initiatives.

1.2 Local Government Provisional Finance Settlement 2019/20

1.2.1 The provisional Local Government Finance Settlement for 2019/20 was announced on 13 December 2018. This confirmed our figures for the final year of the four year Revenue Support Grant settlement and confirmed details of the New Homes Bonus figure and rules.

1.2.2 There is no change to the way New Homes Bonus (NHB) legacy payments (from previous years housing growth) will be calculated and the baseline of 0.4% increase in the number of dwelling (converted to Band Ds) will remain.

1.2.3 The Council's total settlement funding assessment for 2019/20 (including Revenue Support Grant and Baseline Funding from retained business rates – before growth) is £4.647m.

1.2.4 There has been confirmation that there will be no change to the reduction of revenue support grant funding down to zero in 2020/21.

1.2.5 The implementation towards the new 75% Business Rates Retention (BRR) scheme and the review of the needs based assessment/formula that underpins our financial needs settlement from central government are both planned to be implemented from April 2020. Both changes create significant uncertainty to the council's medium term financial planning assumptions.

1.2.6 The worst case scenario for the review of the BRR scheme could be to completely re-set the baseline position to our current level of business rate income, thus removing the majority of the growth generated since 2013 under the current 50% BRR scheme. This would remove a significant amount of income (worst case – £1.5m) from the budget in 2020/21. At this stage it is not possible to model the outcome of the needs based assessment review, however, this could have a further impact on the income assumptions currently in the MTFS. This situation will be monitored and reviewed as information becomes available. We will continue to lobby and input into MHCLG consultations in order to make our position clear, including the recent 'A Review of Local Authorities' Relative Needs and Resources' and 'Business Rates Retention Reform' consultations, published alongside the provisional finance settlement.

1.3 Council Tax referendum requirements 2019/20

1.3.1 In December 2018, the Government announced the council tax referendum limits, being a 3% or £5 threshold (whichever is the higher) for council tax increases for 2019/20 for shire districts. Any council tax rise above this would trigger a local referendum, thus giving the local electorate the opportunity to approve or veto the increase. In addition, regulations have been laid setting out the rules for the harmonisation of council tax from the predecessor authorities, which provide that a council can choose to apply the referendum principles in any year before harmonisation to either the average council tax across the new council's whole area, or to the council tax in each predecessor area.

1.3.2 The current budget figures assume no increase in Band D council tax for 2019/20 for the predecessor area of St Edmundsbury, and a £4.95 increase for the predecessor area of Forest Heath. This assumption is in line with the approved business case for a single council for West Suffolk with council tax harmonisation planned over 7 years.

1.4 **<u>Setting the budget – 2019/20 and across the medium term to 2022/23</u>**

1.4.1 Performance and Audit Scrutiny committee scrutinised and recommended the approach to our medium term planning 2018/2021 (Report No: PAS/SE/19/006) and (Report No: PAS/FH/19/006 refer).

The starting position is from the existing MTFS which is balanced for each year from 2018/19 out to 2020/21 (including some cost saving targets). This has enabled the methodology for revising this outlook to be focussed on three areas:

1. Challenging the pre-existing assumptions and updating these to reflect new knowledge and information.

2. Collating new items that are required to support the delivery of West Suffolk Councils Strategic Plan.

3. Reflect any changes in the wider macro environment which require a change in approach from West Suffolk Council.

1.4.2 The process to validate each of these areas has been driven by workshop sessions to understand the trends and drivers behind each of the income and expenditure lines within each service area and project. The outcome of the sessions has then been reviewed at an overall council level by the Leadership Team to ensure a collective, corporate view.

1.4.3 The six approved MTFS themes below continue to be at the forefront of West Suffolk Council's financial strategy for delivering a sustainable medium term budget:

1. aligning resources to West Suffolk councils' Strategic Framework and essential services;
2. continuation of the shared service agenda and transformation of service delivery;
3. behaving more commercially;
4. considering new funding models (e.g. acting as an investor);
5. encouraging the use of digital forms for customer access; and
6. taking advantage of new forms of local government finance (e.g. business rate retention).

1.4.4 The Performance and Audit Scrutiny Committees have a key role in the scrutiny of the budget process and proposals for achieving a balanced budget. The lists of proposals were presented to members of the Performance and Audit Scrutiny Committee in November 2018 (Report Nos: PAS/SE/18/035 and PAS/FH/18/039, 'Approach to Delivering a Sustainable Medium Term Financial Strategy 2019-2020').

1.4.5 The Committees received a further update and additional proposals at its meeting in January 2019 (Report Nos: PAS/FH/19/006 and PAS/SE/19/006, 'Approach to Delivering a Sustainable West Suffolk Budget and Medium Term Financial Strategy 2019-2020').

1.4.6 Attachment A is the revenue budget summary, which provides an overview of the proposed income and expenditure for 2019/23. The total proposed revenue expenditure in 2019/20 is £48.11 million (excluding Housing Benefits).

1.5 Capital programme 2019-2023

1.5.1 The capital expenditure of the Council has an impact on the revenue budget and is part of the overall preparation of the revenue proposals for the coming year.

1.5.2 It is estimated that £20.223 million will be spent on capital programme schemes during 2019/20 which are to be funded by a combination of grants and contributions (£0.900 million), earmarked revenue reserves (£2.054 million), the usable capital receipts reserve (£2.736 million) and external borrowing (£14.533 million).

1.5.3 Looking ahead, the total value of the capital programme over the next four years is approximately £40.971 million. Attachment D, Appendix 2 shows the planned capital expenditure in financial year 2019/20 and future years, together with information on the funding of that expenditure (that is, grants and contributions, use of earmarked revenue reserves, useable capital receipts reserve and external borrowing) and is summarised in Table 2 below.

Table 2: Planned capital expenditure over four years to 2022/23

	2019/20 millions	2020/21 millions	2021/22 millions	2022/23 millions	Total millions
Gross capital expenditure	**£20.223**	**£16.196**	**£1.829**	**£2.723**	**£40.971**
Funded by: Grants and contributions	£0.900	£0.900	£0.900	£0.900	£3.600
Earmarked revenue reserves	£2.054	£2.562	£0.679	£1.573	£6.868
Capital receipts reserve	£2.736	£2.450	£0.250	£0.250	£5.686
External borrowing	£14.533	£10.284	£0.000	£0.000	£24.817
Total	**£20.223**	**£16.196**	**£1.829**	**£2.723**	**£40.971**

1.5.4 The quarter 3 Performance Monitoring as reported to the Performance and Audit Scrutiny Committee on 31 January 2019 identified a potential carry forward of £63.7m on the 2018/19 capital programme, relating to timing of profiled spend on a number of projects. These are set out in Attachment D, Appendix 2a.

Subject to the year end outturn position, any carry forwards will be added to the 2019/20 capital programme budget at the year end.

1.6 Disposal of assets

1.6.1 Part of the funding arrangements for the capital programme has been the disposal of surplus assets. The Council has plans to review its programme of asset disposals as part of the development of its Asset Management Strategy. Table 3 below is a summary estimate of the likely level of income from asset disposals over the period 2019/20 to 2022/23.

Table 3: Estimated income from asset disposals 2019-23

	2019/20 millions	2020/21 millions	2021/22 millions	2022/23 millions
Council share of Right to Buy receipts	£0.70	£0.70	£0.70	£0.70
Barley Homes Loan Repayments	£0.00	£5.95	£0.00	£0.00
Total	**£0.70**	**£6.65**	**£0.70**	**£0.70**

1.6.2 The above capital programme and asset disposals programme, along with the repayment of the loan given to Barley Homes (£5.95m), will, in the short to medium term, move the Council's usable capital receipts reserves from £2.061 million to £5.125 million. This assumes that all borrowing included within current and future business cases will be drawn down.

1.6.3 The calculation of interest income used in the medium term plans is based on the use of existing and anticipated capital expenditure and receipts, and external borrowing where the business cases assuming funding would come from borrowing. Changes in the level and timing of these cash flows have a direct impact on investment returns and revenue funding requirements. However, the Interest Equalisation Reserve does allow for some change in the budgeted levels of income from interest to be accommodated. The Prudential Code for Capital Finance and matters relating to the affordability of the Capital Programme are addressed in Attachment D, Appendix 4. The revenue cost of the capital programme is achievable across the medium term provided the savings and income streams indicated in the MTFS are implemented.

1.7 **Minimum Revenue Provision (MRP)**

1.7.1 The Treasury Management and Annual Investment Strategy included elsewhere on this agenda (Report No: EXC/SA/19/006 and the Prudential Indicators (Attachment D Appendix 4), provide a framework within which borrowing limits for the Council are established and will confirm our MRP policy for 2019/20.

1.8 **General Fund Balance**

1.8.1 The revenue budget, Attachment A, based on current budget projections, shows a balanced budget position for 2019/20. However, many of the assumptions supporting the budget projections for 2019/20 (and future years) are subject to significant uncertainty. This includes assumptions regarding:

(a) sustainability of income stream estimates (including commercial property rental income and planning income);
(b) impact of Business Rates Retention scheme and Suffolk pooling arrangements; and
(c) pay inflation and employer's pension liabilities.

1.8.2 The Council holds General Fund balances as a contingency to cover the cost of unexpected expenditure during the year. As outlined in Attachment C, "Adequacy of Reserves and Robustness of Budget Estimates", the Council's General Fund Balance is set at a minimum of £5m.

1.8.3 The recommended level of general fund balance has been established by taking into account the following:

(a) allowance for a working balance to cushion the impact of any unexpected events or emergencies;
(b) the new risks placed at a local level under the new business rates retention scheme, such as appeals;
(c) the addition of greater income targets and project returns linked to being more commercial and the selling of councils' services; and
(d) other risks detailed in the Scenario Planning and Sensitivity Analysis provided at Attachment D, Appendix 5.

1.8.4 The 2018-2019 Performance Reports (Quarter 3) to the Performance and Audit Scrutiny Committees on 31 January 2019 (Report Nos: PAS/SE/19/002 and PAS/FH/19/002) included an estimate of the year end budget position as a deficit of £27k. It is proposed to transfer any final year-end surplus in its entirety to the Council's Invest to Save reserve in order to fund future efficiencies and initiatives, which will help to mitigate any further risks or budget pressures going forward. It is proposed that any year-end deficit is supported by a transfer from the Council general fund reserve.

1.9 **Earmarked reserves**

1.9.1 At the beginning of the 2019/20 financial year the Council will have an estimated £25.341 million in earmarked reserves. The current level of earmarked reserves and contributions during 2019/20 has been reviewed and where appropriate annual contributions have been adjusted. Attachment D, Appendix 3, provides details of the proposed contributions to, and projected expenditure from, earmarked reserves during 2019/20 up to 2022/23. At the end of 2022/23 these reserve balances are estimated to fall to £23.903 million.

1.10 **Strategic Priorities and MTFS Reserve**

1.10.1 This reserve acts as a one-off fund to provide the financial capacity, either through direct investment (revenue and/or capital) or through servicing external borrowing, for the Council to drive forward the delivery of a sustainable Medium Term Financial Strategy (MTFS) and the West Suffolk Strategic Plan priorities.

1.10.2 Table 4 shows the total New Homes Bonus (NHB) grant payments made to the predecessor councils since the scheme began in 2011/12, including the expected West Suffolk Council receipt in 2019/20. These NHB allocations have all been put into this Strategic Priorities and MTFS reserve.

Table 4: New Homes Bonus – Grant Receipts

Year	Forest Heath millions	St Edmundsbury millions	West Suffolk millions
2011/12	£0.562	£0.268	£0.830
2012/13	£1.436	£0.559	£1.995
2013/14	£1.679	£0.757	£2.436
2014/15	£2.166	£0.886	£3.052
2015/16	£2.437	£1.219	£3.656
2016/17	£2.644	£1.754	£4.398
2017/18	£1.278	£1.553	£2.831
2018/19	£0.718	£1.272	£1.990
2019/20	N/A	N/A	£1.848

1.10.3 The 2019/20 budget and MTFS includes a number of draws on this reserve as previously approved or under consideration through the democratic process. Attachment E summarises the proposed draws on this reserve as part of the 2019/20 budget and the medium term budgets.

1.11 Adequacy of reserves

1.11.1 Section 25 of the Local Government Act 2003 requires the Section 151 Officer (Assistant Director (Resources and Performance)) to report to Shadow Council, as part of the tax setting report, her view of the robustness of estimates and the adequacy of reserves. The Shadow Council is required to take these views into account when setting the council tax at its meeting on 19 February 2019. The full statement is set out in Attachment C.

1.11.2 In summary, the Section 151 Officer's overall assessment is that the estimates are robust (taking into account known risks and mitigating strategies) and reserves are adequate for the 2019/20 budget plans.

1.12 Proposed Council Tax Discount for Care Leavers

1.12.1 It is proposed that from 1 April 2019, West Suffolk Council adopt a Suffolk-wide policy to award 100% council tax discount to West Suffolk residents aged 16-25 who were previously under the care of Suffolk County Council and who live alone; with other care leavers; or others who are disregarded for council tax purposes (e.g. full-time students). Care leavers will also be disregarded for council tax purposes so that if they live with a single occupier, that person will not lose their 25% discount.

1.12.2 The cost to West Suffolk Council is likely to be a maximum of £15,000 each year. Full background information on the proposal is included in Attachment H to this report.

1.13 **Legal implications**

1.13.1 The Local Government Act 2003 imposed duties on local authorities in relation to financial management which covers the following areas:

a) A power for the Secretary of State to determine a minimum reserve level for local authorities by regulations. The Government has indicated that their preference is to keep this power in reserve.

b) Section 25 of the Act places a requirement on the S151 Officer to report on the adequacy of reserves and robustness of budget estimates as part of the authority's annual budget setting process. The Shadow Council is required to take these views into account when setting the Council Tax at its meeting on 19 February 2019. This is included as Attachment C of the report.

c) Sections 28 and 29 of the Act place a statutory duty on local authorities to monitor their budgets and take such action as considered necessary in the case of overspends and shortfalls of income.

d) Section 30 of the Act relates to the provisions preventing local authorities entering into agreements following a Section 114 Report which a S151 Officer must produce when it appears that expenditure of the authority in a financial year is likely to exceed the resources available to meet the expenditure. No such report has been produced for West Suffolk this year.