

Delivering a Sustainable Medium Term Budget

Report No:	PAS/WS/20/002	
Report to and dates:	Performance and Audit Scrutiny Committee	30 January 2020
	Cabinet	11 February 2020
	Council	25 February 2020
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Decisions Plan: This item is included in the Decisions Plan.

Wards impacted: All wards

Recommendation: It is **RECOMMENDED** that members:

- (i) Recommend to Cabinet the inclusion of the proposals, as detailed in Section 2 and Table 1 of this report, in the medium-term financial plans.

1. Background / context

- 1.1 On 19 February 2019 the Shadow Council approved a budget for 2019/20 and medium-term financial plan for West Suffolk Council to 2023. This medium-term financial plan was balanced for the first two years and then showed a budget gap of £2.7m in 2021/22 and £3.9m in £2022/23 (including unallocated savings).
- 1.2 At its meeting on 26 September 2019 the Performance and Audit Scrutiny Committee (PASC) agreed the principles and approach for delivering a balanced budget in 2020/21 and a medium-term financial plan for the years up to 2023/24.
- 1.3 Those principles are:
 - The 2020/21 budget and medium-term financial plans will continue to follow the West Suffolk Council Strategic Framework (three priorities) and Medium-Term Financial Strategy (six themes).
 - The budget and MTFS will reflect any new initiatives developed as part of the revised Strategic Framework.
 - The budget and MTFS will include the forecast impact of initiatives that address our financial challenges and seize opportunities to reduce the existing budget gaps.
 - The process will continue to communicate the overall West Suffolk financial challenges and opportunities through the medium-term financial strategy to Leadership Team, staff, cabinet and all councillors.
- 1.4 The agreed approach, delivering against these principles, included a round of Budget Challenge workshops across all service areas to review the Councils key budget assumptions (taking into account the 2018/19 year end performance and current 2019/20 data), service demands, planned housing growth, sensitivities and risks.
- 1.5 These workshops took place during August-December alongside a detailed 'line by line' review of each services cost base to ensure that budgets are only set for planned and understood expenditure. A report setting out the changes in cost and income assumptions that have been identified at that point through that process was taken to the PASC meeting on 28 November 2019.
- 1.6 Those workshops and line by line reviews have now concluded and any further proposed changes in cost and income assumptions, as a result, have been included in the table at 5.2, including those relating to budget assumption changes:
 - Confirmation received for the continuation of the Rural Services Delivery Grant in the Spending Round.
 - Confirmation of the increase in the tax base for council tax setting purposes (no. of properties chargeable for council tax)
 - Known changes to property lease changes and renewals (retail and industrial units)

- An additional year of Housing Support grant allocation to fund the additional resources within our housing team

2. Provisional Local Government Finance Settlement

- 2.1 On 20 December 2019 the newly formed government issued their provisional local government finance settlement for 2020/21. This settlement was effectively an extension to the 4 year settlement that covered the period 2016/17 – 2019/20 and was very much expected to be a roll forward of allocations received in the current year (2019/20) and in the main that was the case. The provisional settlement sets out (as expected) the further delay in both the fairer funding review and the reform of business rates which is now due to take place in time for the 2021/22 budget process. While we have included existing business rates retention allocations in our medium-term budget assumptions, this delay creates a greater level of uncertainty over the Council's medium-term financial plans, this is the same for all local authorities.
- 2.2 The provisional settlement also sets out the proposed roll forward (as a one off) of the revenue support grant and rural services delivery grant allocation that both Council's had received in 2019/20, but had not assumed for 2020/21. An additional years Housing Support Grant was also allocated. The tables provided to members at both the November PASC and at para 5.2 now include those one-off allocations.
- 2.3 The provisional settlement also confirmed the council tax referendum principles of an average band D for a district council to be able to increase up to 2% or £5, whichever is the maximum for 2020/21.

New Homes Bonus

- 2.4 The big change included in the provisional local government settlement was around the future of new homes bonus, a funding allocation from central government that's future has been uncertain for a number of years. The government's provisional settlement sets out a final round of allocations of new homes bonus for 2020/21 (over and above the growth baseline of 0.4%). However, it will only attract a one year allocation instead of the previous four year allocation. There will be no further allocations beyond 2020/21, with legacy payments (from 2018-20) only then being paid in future years - effectively phasing out the grant over the next 3 years.
- 2.5 The government have announced that they will consult on the future of housing incentives in the spring, including the potential of moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes needed, and which is aligned with other measures around planning performance. It is uncertain how this will be funded alongside the fairer funding review, reform of business rates and the demands from the whole system (see 2.7 below).
- 2.6 West Suffolk has been prudent over the years in allocating the new homes bonus direct to a strategic priority and MTFS reserve which has been utilised towards strategic projects and financial initiatives. However, there

are a couple of areas within the council's budgets that continue to be funded from this reserve such as locality budgets and proportion of the community chest fund, that would now need to be put into the base budget and as a result will create a budget pressure in future years (likely to be beyond this current MTFS period).

- 2.7 The provisional settlement continues to reaffirm central governments thoughts and approach to local government funding. In that local authorities need to balance their books in future from efficiencies in the way that they work and through locally generated income streams and taxation along with a move to be more self-sufficient. This combined with the need to address the system wide challenges such as social care and children service provides further uncertainty to the level of funding available. Members will need to take this into consideration when considering the role that locally generated income streams play in delivering a sustainable budget for West Suffolk in the longer term.

3. Corporate Reviews – Expenditure

- 3.1 Since the November meeting of this committee, budget holders have undertaken a number of corporate reviews on some key expenditure areas. These reviews looked to ensure that our cost assumptions are robust, reflect historical trends and include any further efficiencies, contractual or otherwise as a result of becoming a single council. The outcome of the reviews have been included in the table set out in 5.2.
- 3.2 There are a number of significant expenditure contracts coming up for renewal in the medium to long term, creating the opportunity for the council to test the market and where possible, drive efficiencies and procurement savings. These contracts include our utility supplies, cleaning and security arrangements and printing and postage alongside a number of IT system renewals. Work will continue on these areas during 2020/21 with the intention of feeding into the 2021/22 budget.

4. Corporate Reviews Income Assumptions

- 4.1 Alongside the expenditure reviews the budget holders have undertaken a review of all major income streams. In particular those covered within Planning and Regulatory services and the Operations function. The reviews took into account ongoing trends, impact of pricing, benchmarking information, market conditions and intelligence and an assessment of potential new and existing growth areas.
- 4.2 In order to further understand the risks associated with these significant income streams the budget holders undertook a review of income across a number of scenarios. Those being worst case scenario (one that for example reflects a loss of a key customer or market share), a base case (one that officers were broadly comfortable as being achievable) and a best case scenario (where further resources would need to be allocated in order to generate additional value to the authority).

- 4.3 In arriving at the assumptions contained in the medium-term financial plans an overall assessment has taken place to feed into the Chief Finance Officers report to members at their February meeting around the robustness of estimates and reserves. The outcomes of those reviews are included in the table set out at para 5.2.

5. Current Outlook

- 5.1 This work has been invaluable in improving the council's financial outlook position and reinforcing the move to a single council. While the council is showing a (close to) balanced budget for 2020/21 there remain significant challenges for future years, especially in light of the uncertainty of the national funding picture.
- 5.2 The net impact of each of these assumption changes is included in the table below. These changes, plus the outcomes from the Budget Challenge workshops, give rise to a budget gap (cumulative) of £0.06m for 2020/21, £1.7m for 2021/22, £2.2m for 2022/23 and £2.7m for 2023/24. These changes are set out in **Table 1** below:

Table 1:

	2020/21	2021/22	2022/23	2023/24
Budget Gap - February 2019	0	2,700	3,900	4,400
Budget Gap (as per Nov PASC Report PAS/WS/19/019)	286	1,980	2,947	3,031
<u>Budget Assumptions Review (see paragraph 3.1)</u>	(112)	(57)	(476)	26
<u>Additional Cost Pressures</u>				
Private Sector Renewal Grant <i>Annual revenue contribution (previously funded from capital receipts) to enable scheme to be fully funded in the medium/longer term</i>	100	100	100	100
Scrap Metal sales <i>Current pricing available for sale of scrap metal significantly lower than in previous MTFS</i>	68	69	71	72
Contribution to 20/21 Cycle Tour <i>Partial contribution to costs of Suffolk stage of Cycling Tour of Britain</i>	20	0	0	0
Total Additional Pressures	188	169	171	172
<u>Income/Savings items</u>				
Revised Treasury Management interest income <i>Higher expected cash balances planned at a lower average rate of return (based on advisor guidance)</i>	(71)	(69)	(60)	(60)
<u>Fees & Charges Reviews</u>				
Increase in Trade Waste income <i>Based on Ro-ro trend and good customer retention</i>	(148)	(179)	(213)	(249)
Increase in Apex activity <i>Net surplus driven by continuing 19/20 levels of venue usage</i>	(33)	(33)	(34)	(34)
Markets income reduction <i>Trend in income particularly driven by Newmarket market</i>	47	44	44	44
Solar Feed-In Tariffs <i>£0.5m capital investment to drive increased returns</i>	(68)	(69)	(71)	(72)
Aggregate of smaller budget movements	(30)	(112)	(73)	(128)
Total Income/Savings items	(303)	(418)	(406)	(499)
Net Balance	59	1,674	2,236	2,730

- 5.3 Work is still ongoing that will significantly impact this outlook. The key elements that are yet to be finalised include:
- Final outcome of the two taskforces – Environmental and Rural (the interim results are included)
 - Final outcome of the Car Parking review group
 - Civil Parking Enforcement costs and incomes.
- 5.4 While the council has the power to change this, the current budget assumes no change to the 7-year Council Tax plan for harmonization between the predecessor areas of St Edmundsbury and Forest Heath.
- 5.5 At this stage in the budget process focus has been on the revenue outlook. The capital and reserve movements are to be finalised and will be presented to Cabinet and Council in February.

6. Timescales and Next Steps

- 6.1 The following high-level timetable is proposed for delivery and agreement of a budget and medium-term plan for West Suffolk Council for 2020/21.

Action	Timescales
PASC report – Delivering a Sustainable Budget update report	30 January 2020
Member Development Session(s) and briefing(s) – MTFS	February 2020
Cabinet – 2019-20 Budget and Council Tax setting report	11 February 2020
Council - 2019-20 Budget and Council Tax setting report	25 February 2020