

## CABINET

THURSDAY, 2<sup>nd</sup> August 2018

### REPORT OF THE LEADER OF THE COUNCIL

#### BUDGET AND MEDIUM TERM FINANCIAL PLANNING PROCESS 2019/20

##### EXEMPT INFORMATION

None

##### PURPOSE

To seek agreement to the Proposed Budget and Medium Term Financial Planning Process for General Fund and the Housing Revenue Account for 2019/20.

##### RECOMMENDATION

**That the proposed process for the General Fund and Housing Revenue Account Budget and Medium Term Financial Planning Process for 2019/20 be adopted.**

##### EXECUTIVE SUMMARY

The budget setting process has faced significant constraints in Government funding in recent years - over 50% in real terms since 2010. The 4 year Local Government Finance Settlement confirmed that austerity measures are to continue with Revenue Support Grant (RSG) all but eradicated for most Councils by 2020 – and suggests that the key challenges that the Council is currently addressing are likely to become greater.

The Authority has been proactive in the design and implementation of innovative and effective measures for driving efficiency and reducing cost within the MTFS.

The Council remains committed to promoting and stimulating economic growth and regeneration; meeting our housing needs; creating a vibrant town centre economy and protecting those most vulnerable in our communities. To this end, we pledge to explore and invest in viable and sustainable methods of generating income and moving towards financial independence.

In addition, through the adoption of a 'Demand Management' operating model, the Council will have far greater control upon the alignment of services or 'supply' to the increased needs and expectations of the public or 'demand'. Key to this will be the application of existing and new technology to capture, collate and analyse customer insight, intelligence and data so as to understand not just the 'need' but the cause, behaviours or decisions creating the need.

This approach will change the organisation and how it works; will require Members to put evidence and insight at the heart of our decision making to ensure that we are transparent about the rationale for our decisions and plans; will involve managed risks and will sustain essential services critical in supporting the most vulnerable in our communities at a time when demand is increasing and resources reducing.

However, there remains a high degree of uncertainty arising from the most significant changes in Local Government funding for a generation in 2020/21 arising from:

- The Government's **Fair Funding Review (FFR)** of the distribution methodology including:
  - changes to the needs assessment (which will determine each Council's share of the national funding for Local Government – it is likely that this will reflect the impact of Social Care demands and that funding will be redistributed to Unitary and County Councils to the detriment of District Councils);
  - treatment of relative resources (to determine how much each Council can fund locally through income from fees and charges and council tax); and
  - any transitional arrangements to protect Councils from significant reductions in funding – and the impact from their unwinding from 2021/22.
- **Spending Review 2019 (SR19)** – where the total spending allocation for Government Departments will be set – including national control totals for Local Government spending. It has already been announced that significant additional funding will be diverted to the NHS which could mean further reductions for other Departments including Local Government;
- The ongoing **review of the Business Rates Retention (BRR) scheme** – the Government announced that Councils will be able to retain 75% of business rates collected from 2020/21 rather than 100% as previously planned with work progressing on the design of the new system including the impact of 'rolling in' grants such as Housing Benefit administration and New Homes Bonus;
- The planned **reset of the Business Rates baseline** for each Council from 2020/21 and redistribution of the growth achieved since 2013 (of over £1m p.a.);
- Uncertainty over the ongoing funding for the **New Homes Bonus scheme**, local growth in housing numbers and share of the national pool (including potential increases to the 'deadweight' for which Councils no longer receive grant).

In addition, the next planned national **Business Rates Revaluation** with take effect from 2021/22 – with latest indications that the Government will also aim to introduce a **centralised system for business rate appeals** at the same time to cover future changes arising from the 2021 valuation list.

While we are aware of these forthcoming changes, little to no information is available on the potential impact for individual Councils' finances.

A summary of the indicative Government timetable for the reviews is shown below:

Date	Issues
May 2018	Risk and gearing; appeals and loss payments; updates on Pool prospectus; update on FFR consultation.
July 2018	Resets and measuring growth; Revaluation; BRR transitional arrangements; Pooling; FFR – structure of needs assessment, treatment of relative resources, principles for transitional arrangements.
Oct 2018	Overall short term package and future reform; update on SR 2019; Potential consultation on BRR Baseline reset.
Early 2019	Technical BRR consultation and links to FFR; SR 2019 emerging issues; Potential consultation on BRR Baseline reset.
Mid 2019	Results of consultations (hopefully); SR 2019 emerging issues.
Later 2019	Indicative impact of systemic changes potentially this late
Late 2019 / Early 2020	Provisional Local Government Finance Settlement detailing impact for Councils

***We will therefore need to consider the approach to forecasting and planning for these uncertainties balancing the risk to the MTFS against the need for savings and potential service reductions.***

Corporate Management Team (CMT) and Cabinet review the most up-to-date budget forecasts on a quarterly basis, and discuss the delivery of the planned savings to support our Medium Term Financial Strategy (MTFS) – as outlined below.

Work is continuing to mitigate the financial position in future years through:

- Delivering Quality Services project – the demand management approach to shift demand to more efficient methods of service delivery – online and automation (Interactive Voice Response).  
***A savings target of £100k p.a. has already been included within the MTFS together with reduced CRM costs of £62k p.a. from 2019/20;***
- Recruitment re-justification process – where possible, temporary 12 month appointments are now only being made; there is a robust challenge / re-justification process in place for all vacant posts with a requirement to investigate alternative options including restructuring to fill vacancies/looking at what we can stop doing.

We took the opportunity to increase the vacancy allowance from 5% to 7.5% by 2020/21 c. £45k p.a. year on year for the General Fund, c.£14k p.a. for the HRA (It should be noted that staffing in some services e.g. planning, are key to the delivery of the Council's economic growth agenda and have significant demand from the public and local businesses but can also experience severe recruitment difficulties – which may lead to the use of market supplements to attract staff).

- Spend freeze – Managers have previously been required to restrict / limit spending to essential spend only (there was a £1.8m underspend in 2017/18 – although arose from windfall income, c. £1m was lower level underspends)

***A review of the underspend position is planned with a view to driving out as many savings as possible;***

- Alternative investment options arising from the Commercial Investment Strategy (as well as the Treasury Management Investment Strategy, including any prudential borrowing opportunities) to generate improved returns of c. 4 to 5% p.a. (plus asset growth) including:
  - Set up of trading company to develop new income streams;
  - Local investment options – Lower Gungate / Solway Close development including the potential to drawdown funding from the Local Growth Fund / Local Enterprise Partnerships (GBS and Staffordshire);
  - Investments in Diversified Property Funds – ***a savings target to return c.4% p.a. from £12m invested has already been included from 2019/20.***

Note: these would represent long term investments of between 5 – 10 years (minimum) in order to make the necessary returns (after set up costs).

- Review of reserves (including ensuring adequate provision for the funding uncertainties) / creation of a fund for transformation (if needed); and
- Targeted Savings – to identify potential areas for review in future years.

As part of the budget process, Policy Changes are required in order to amend base budget provision. As grant and other income levels are reducing, where increased costs are unavoidable then managers should identify compensatory savings. Where savings are identified they must be accompanied by a robust implementation plan. Robust business case templates will have to be submitted to Cabinet and CMT for all Policy Change submissions (Revenue and Capital).

The attached Project Plan at **Appendix A** lists the stages, deadlines and the responsible officers for the production of the budget and medium term financial plan. **Appendix B** contains an outline of the process whilst **Appendix C** shows the flow of key stages over the process period.

## **Budget Consultation**

In addition to the activity planned for the Tamworth Listens process, consultation has been planned to gauge residents', businesses' and other core stakeholders' views on areas of spending or where savings could potentially be made.

The consultation, detailed at **Appendix D**, will be carried out through 3 online surveys. A survey that is tailored for businesses, a full survey aimed at residents and a survey that is tailored for the voluntary and community sector.

The online residents survey will be promoted using social networking/media sites and through email contact databases. The business survey will be promoted through business social networking sites and business email contact databases. The voluntary and community sector survey will be promoted through email contact databases.

## **Timetable**

Significant milestones in the process, detailed at **Appendix A**, are planned as:

- a) Consultation process - results to Cabinet 8<sup>th</sup> November;
- b) Base budget and technical adjustments to Cabinet 29<sup>th</sup> November;
- c) Cabinet to consider Council Taxbase calculation on 29<sup>th</sup> November and Business Rates Forecast on 24<sup>th</sup> January;
- d) Cabinet proposals to a Leaders Budget Workshop 6<sup>th</sup> December;
- e) Provisional RSG settlement assessment to Corporate Management Team and EMT in December;
- f) Joint Scrutiny Committee (Budget) to be held on 30<sup>th</sup> January 2019;
- g) Final Budget and Medium Term Plan reports to Cabinet 21<sup>st</sup> February 2019;
- h) Budgets set at Council 26<sup>th</sup> February 2019.

It should be noted that the complexity of some of the issues and the reliance on the Government for Business Rates Retention and RSG data to report might mean that some reports have to be treated as urgent items and/or are considered at a later meeting.

Members are asked to endorse the process to be followed.

## **OPTIONS CONSIDERED**

None

## **RESOURCE IMPLICATIONS**

There are no financial or resource implications arising from the implementation of the Budget and Medium Term Planning Process.

## **LEGAL/RISK IMPLICATIONS**

It is considered that a Medium Risk to the achievement of the planned timetable exists due to the potential for a delay in the:

- Provision of information from managers; and
- Publication of the Local Government Finance Settlement information for each individual authority by the Ministry of Housing, Communities & Local Government (MHCLG).

There also remains a high degree of uncertainty arising from the most significant changes in Local Government funding for a generation in 2020/21 arising from the Fair Funding Review, review of the Business Rates Retention (BRR) scheme, reset of the Business Rates baseline, Spending Review 2019 and the ongoing uncertainty over the funding for the New Homes Bonus scheme - as well as other changes arising from the Government's Welfare Reform Agenda.

In addition, the next planned national **Business Rates Revaluation** with take effect from 2021/22 – with latest indications that the Government will also aim to introduce a **centralised system for business rate appeals** at the same time to cover future changes arising from the 2021 valuation list.

While we are aware of these forthcoming change, little to no information is available on the potential impact for individual Councils' finances.

The Key Risks are:

- The impact of uncertain economic conditions, following the decision to leave the EU – there is a higher level of uncertainty than in previous budget setting processes. It is suggested that, given the uncertainty, there should be a clear plan to focus on balancing the next 3 years' budget position for the General Fund (5 years for the HRA);
- The impact of the Government's **Fair Funding Review (FFR)** of the distribution methodology including changes to the needs assessment (which will determine each Council's share of the national funding for Local Government – it is likely that this will reflect the impact of Social Care demands and that funding will be redistributed to Unitary and County Councils to the detriment of District Councils);
- Achievement of the anticipated growth in business rates income – in line with the assumed baseline and tariff levels set (& subject to the impact of the planned reset in 2020/21);
- **Spending Review 2019 (SR19)** – where the total spending allocation for Government Departments will be set – including national control totals for Local Government spending. It has already been announced that significant additional funding will be diverted to the NHS which could mean further reductions for other Departments including Local Government;
- Uncertainty over the work progressing on the system for Councils to keep up to 100% (with current indications of 75%) of the business rates collected by 2020 (and the associated impact on the Council's business rates income and associated baseline and tariff levels);
- Delivery of the planned Commercial Investment and Regeneration Strategy actions and associated improved investment returns of 4%-5% p.a. arising from the investment of £24m from the capital receipt received over the period 2016 – 2018 from the sale of the former golf course (to support the MTFS in the long term);
- The work continuing on a number of actions to address the longer term financial position;

- Uncertainty over the ongoing funding for the New Homes Bonus scheme and share of the national pool (including potential increases to the 'deadweight' for which Councils no longer receive grant) and achievement of anticipated growth in new homes within the Borough / the associated dependency on the New Homes Bonus income to address / reduce the funding shortfall for the General Fund; and
- The challenge to continue to achieve high collection rates for council tax, business rates and housing rents – in light of further austerity, economic conditions and uncertainty.

## **REPORT AUTHOR**

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## **LIST OF BACKGROUND PAPERS**

'Investing in the Future of Tamworth' (Tamworth Commercial Investment Strategy to Promote Growth and Regeneration ) - Cabinet 16<sup>th</sup> June 2016

Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2018/19, Council 27<sup>th</sup> February 2018

## **APPENDICES**

### **Appendix A**

Project Plan for the Budget and Medium Term Financial Planning Process for the year 2019/20

### **Appendix B**

Outline of the Budget and Medium Term Financial Planning Process

### **Appendix C**

Flowchart of the Budget & Medium Term Financial Planning Process

### **Appendix D**

2019/20 Budget Consultation

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