Report to Cabinet

24 January 2019
By the Cabinet Member for Finance and Assets
DECISION REQUIRED

Not Exempt

The 2019/20 Budget and the Medium Term Financial Strategy to 2022/23

Executive Summary

This report sets out details of the proposed 2019/20 revenue and capital budgets following the receipt of the provisional financial settlement from Government on 13 December 2018. The net budget requirement for 2019/20 at £10.4m is £0.3m lower than in 2018/19. The Council is able to set a budget that will generate a surplus, which will help towards funding future transformation to maximise efficiency and effectiveness. In the year, the Council will be delivering a £19.3m capital programme, while the level of council tax proposed remains the lowest in West-Sussex and is in the lowest quartile nationally.

The report also reviews the Medium Term Financial Strategy 2019-23 approved by Council in December 2018 in the light of any updated information. The outlooks remains uncertain due to limited detail available on Government's proposed significant change to the future of business rates and the Fair Funding Review; both are currently under consultation.

The current projection is for the Council to have a budget surplus in 2019/20 and 2020/21 despite the continued reduction in Government funding as we anticipate any effect to be dampened slightly, rather than a step change in 2020. However, without taking action this would result in budget deficits. The budget projections for 2021/22 and 2022/23 are to breakeven, provided significant transformation continues to be delivered.

To do this, the Council plans to continue to deliver savings and income generation through a combination of measures including; service reviews, procurement, income generation, and other efficiency measures. While the immediate programme focuses on 2019/20, ideas have been extended into 2020/21, looking for new sources of income, reviewing our workforce especially around recruiting and retaining local staff and supporting our people to take on broader and more complex roles. We are also looking at replacing our technology with cheaper, Cloud based options and increasing the amount of self-service using the internet and social media.

The report also sets out a series of prudential indicators that are a statutory requirement to demonstrate that the Council's capital programme is affordable, and prudent in the context of the Council's overall finances. The report also includes a statement on the robustness of reserves in Appendix I.

Recommendations

Cabinet is recommended to propose the following for consideration by Council on 13 February 2019:

i) That the level of Council Tax for 2019/20 increases from £145.60 by £4.66 (3.2%) to £150.26 at Band D.

(ii) That the net revenue budget for 2019/20 of £10.435m is approved (attached as Appendix A).

(iii) That Special Expenses of £300,370 (attached as Appendix D) and a Band D charge of £25.56 are agreed in respect of the unparished area for 2019/20.

(iv) That the capital programme for 2019/20 (attached as Appendix E) be approved and that the indicative capital budgets in the programme for future years be noted.

(v) That the projected future balanced budgets on the revenue account in 2021/22 and 2022/23 are noted and the Medium Term Financial Strategy continues to be reviewed and refined to ensure that decisions are taken to deliver these balanced budgets in these two years.

(vi) That the Minimum Revenue Provision (MRP) Statement set out in Appendix F is approved.

(vii) That the Capital Strategy and prudential indicators and limits for 2018/19 to 2021/22 set out in Appendix G are approved.

(viii) To note the statement on the robustness of the level reserves in Appendix I.

Reasons for Recommendations

To meet the Council's statutory requirement to approve the budget and the prudential indicators before the start of a new financial year.

Background Papers: Medium Term Financial Strategy, Cabinet, 22 November 2018

Wards affected: All

Contact: Jane Eaton, Director of Corporate Resources, 01403 215300
Dominic Bradley, Head of Finance 01403 215302

Appendices:
A: Revenue Budget 2019-20
B: Major items of growth and savings
C: Grants to voluntary groups
D: Special charge summary
Ei: Capital expenditure programme
Eii: Capital programme new schemes
F: Minimum Revenue Provision
G: Capital Strategy including Prudential Indicators
H: New Homes Bonus
I: Reserves

Background Information

1 Introduction and background

1.1 This report sets out the Council's budget requirement for 2019/20 for capital and revenue expenditure. The budget is reviewed in the context of the projected outturn for 2018/19, future years' projected budgets and reserves.

1.2 The local government finance system is complex and the medium term future is more uncertain than ever. Predicting what interest rates and energy costs will be in two to five years' time is difficult and further complicated by uncertainty regarding the financial impact of Britain's exit from the European Union, the Government's welfare reform programme, the Fair Funding Review and future income from retained Business Rates.

1.3 Local government is effectively in the dark as to how the sector will be financed beyond 2019/20. It is however certain that the direction of travel will remain towards greater fiscal self-sufficiency, and that the amount of money available to district councils will continue to reduce over the next five years. The emergence of a Section 114 notice at a County Council indicates imminent danger in the upper tier sector, unless significant funding changes are made. Funding is therefore highly likely to be 'diverted' from Districts towards County / upper tier authorities that are suffering the most, led by the demands of social care.

1.4 The current budget estimate is for the Council to deliver a surplus in 2019/20 and 2020/21 which will help fund the transformation needed to be able to balance the budgets in 2021/22 and 2022/23.

1.5 This review ensures that the 2019/20 budget and resultant Council Tax level will be set within the context of the Council's Corporate Plan priorities and the financial strategy in order to deliver a balanced budget, updated for the latest information and knowledge available to the Council. The report also sets out the prudential indicators used to measure the affordability of the Council's capital programme.

2 Relevant Council policy

2.1 To deliver a balanced budget over the medium term.

3 Details

Strategic political, economic and regulatory outlook

3.1 UK economists are increasingly concerned about the UK economic outlook being affected by the apprehensiveness and uncertainty surrounding the negotiations from Britain's exit from the European Union, which is on course to happen at the end of March 2019.

3.2 The Bank of England raised interest rates to 0.75% in August 2018 but they remain at low levels with significant increases not predicted within the period of this MTFS, the £445bn quantitative easing programme continues and there has been some reduction in the credit rating of UK banks by investment firms. The value of the pound has decreased since the June 2016 referendum; and is around 15% lower against the U.S. Dollar and the Euro. The FTSE 100 share index has fluctuated, rising from around 6,000 at the time of the referendum, peaking at 7,800, but spending much of December 2018 around 6,700.

3.3 Inflation has fluctuated recently, but has fallen when compared to 12 months ago, putting slightly less pressure on expenditure in general terms. In November 2018 it measured 3.2% under the Retail Price Index (RPI) compared to 4.1% a year ago and

2.3% under the Consumer Price Index (CPI) compared to 3% a year ago. However, in specific areas, the impact from increases in costs can be much higher, with for example, the cost of fuel rising much faster and increasing by around 10% over the course of a year. This trend is also set to continue.

3.4 Both the demand for the Council's services and its income streams are affected by the general economic health of the District, and the prevailing interest rate has a direct impact on interest receipts. Therefore the uncertainty of the economic and regulatory outlook adds risk to the setting of a precise financial strategy. With this in mind, the assumptions within the budget and medium term financial strategy have been revisited in the sections below.

Finance Settlement 2019/20

3.5 The Council accepted the offer made by Government in December 2015 of a four-year settlement through to 2019/20. This provided a relative degree of certainty in that the Revenue Support Grant (RSG) and the baseline Business Rates funding reduction from £2m in 2018/19 to £1.4m in 2019/20 (due to £0.7m negative RSG) shouldn't get any worse during this period. Government reversed its intention in the 2019/20 provisional settlement on 13 December 2018 that announced that negative RSG will be eliminated to prevent any local authority from being subject to a downward adjustment to their business rates tariffs and top-ups which could act as a disincentive for growth.

Revenue Budget 2018/19

3.6 Budget holders have monitored income and expenditure against the 2018/19 budget throughout the year. They have also continued to prepare and work up plans to address the future deficits and implement them on an ongoing basis. Despite significant pressures on housing services causing an overspend in this area, overall, the estimated forecast outturn for 2018/19 at the end of month 8 is a deficit on net expenditure of £28k. Officers are taking a number of actions that are likely to improve this positon further by year-end resulting in a small surplus. Any surplus will be used to help fund the Future Horsham transformational changes in 2019/20.

4 Update on the Medium Term Financial Strategy projections

4.1 The medium term financial strategy in Table 1 has been updated for the projected outturn for 2018/19, the 2018 Autumn Budget, the December 2018 provisional settlement for 2019/20 and other known information.

Table 1: MTFS	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
Current net expenditure	10,714	10,435	11,040	11,630	12,190
Cumulative income / savings to deliver through transformation	*In budget*	*In budget*	*(800)*	*(1,155)*	*(1,305)*
Expected net expenditure after transformation	10,714	10,435	10,240	10,475	10,885
Funding: Council Tax	(9,144)	(9,645)	(10,030)	(10,425)	(10,835)
Baseline Business Rates	(1,899)	(2,029)	(410)	0	0

Additional Business Rates	(200)	0	0	(50)	(50)
Collection Fund (surplus)/deficit	(82)	(65)	-	-	-
Total Funding	**(11,333)**	**(11,739)**	**(10,440)**	**(10,475)**	**(10,885)**
Net (Surplus) / Deficit	**(611)**	**(1,304)**	**(200)**	**0**	**0**
Forecast outturn at M8*	***(583)***				

*Due to impact of M8 forecast of £28k overspend against net expenditure

4.2 The assumptions underlying the current medium term financial strategy projections are summarised in table 2 below and expanded upon in the paragraphs that follow:

Table 2: key budget assumptions used:

Inflation cost non-salaries	2.5% increase per annum
Increase in salaries budget	2% per annum
Contribution to pension fund	Nil in 2019/20 and thereafter as currently in surplus
Increase in Council Tax	3.2% £4.66 in 2019/20 and 2.5% thereafter
Local Business Rates	75% localisation of business rates triggering a significant re-baselining in 2020/21.
Increase in dwellings	Around 1,000 per year
New homes bonus - revenue	NHB remains in 2019/20, but sharpened / removed thereafter. Bonus not feeding into revenue as tapered down to zero in 2018/19.
Minimum level of reserves	£6m

Interest rates and inflation

4.3 Economic forecasters are predicting a diverse range on inflation over the next three years, reflecting the uncertainty of exit from the European Union. The medium term financial strategy currently budgets for a 2.5% increase in inflation on the expectation that inflation will remain at or near current levels. The Bank of England suggested in its November 2018 inflationary forecast that CPI inflation would fall back towards its own target of 2% by the early 2020s, although RPI tends to be around 0.8% higher.

4.4 Whilst income is also affected by inflation, inflation also increases our expenditure and that offsets the increases in Council Tax and charges. The impact of inflation on the medium term financial strategy will be revisited on a monthly basis as the data is released by the Office of National Statistics.

4.5 The Bank of England base rate increased to 0.75% in August 2018 but remains at a low level, affecting the Council's income streams from investments. The Council has taken action over the past two years to diversify the investment strategy into non-high street bank style deposit holdings which should help to mitigate the effect by generating more income, but nevertheless, this will impact on the Council's ability to generate income from investments during the period.

4.6 The amount of money the Council has on deposit generating interest income is likely to decrease as the proposed strategy to spend commuted sums on affordable housing will lower the amount of funds held by the Council, albeit this will be replenished somewhat by CIL. Significant expenditure on the capital programme also reduces other funds held by the Council. Whilst no short term borrowing has been undertaken in 2018/19, this is forecast to occur during the medium term financial period, and may transition into longer term borrowing. The positive side of the low Bank of England base rate is that the cost of borrowing is also relatively low at present.

4.7 Economic forecasters are again divided on when an upturn in interest rates may occur. At the moment, the medium term financial strategy includes only a small increase over the three year period which is in line with our treasury management advisors' opinion.

Salaries

4.8 Local government pay is negotiated nationally and the Council has no direct influence on the pay settlement. The 2% local government pay award in December 2017 covered increases in both 2018/19 and 2019/20. Given the potential prospect that inflationary pressures may drive further salary demands, further 2% pay increases through to 2022/23 have been budgeted as well. In expenditure terms, this equates to approximately £325k to £350k of additional expenditure per annum.

Pension Fund

4.9 An increase in employer pension contributions is not currently anticipated in 2019/20 or the MTFS on the basis of the 2016 triennial revaluation of the Council's Pension Fund and a £10m asset interim valuation at 31 March 2018. Equally though, it would not be prudent to significantly cut the employer contribution level from its current 20.5%, as historically, the pension fund has spent more years in deficit than in surplus and the positon can quickly decline, due to changes in actuary assumptions increasing the liabilities, as well volatility of asset values and the value of assets falling. The positon will be revisited when the 2019 full triennial revaluation of the Council's Pension Fund funding statement is finalised by the actuary.

Council Tax

4.10 The December 2018 provisional settlement retained the 2019/20 referendum threshold at the higher of 3% or £5 for district councils in recognition of the inflationary rates of the moment. Government's funding assumptions for all district councils include increases in Council Tax by the maximum amount.

4.11 Ours remains the lowest Council Tax in West Sussex and is in the bottom quartile of all district councils. RPI is currently 3.2% at November 2018. A 3.2% inflationary increase in Council Tax, equivalent to £4.66 is included in the 2019/20 budget. Further increases in Council Tax at 2.5% been have built into the medium term financial strategy projections through to 2022/23. Every 1% increase in Council tax increases income by approximately £95k. As Government funding falls away, the Council is increasingly reliant on self-funding through fees and charges and Council tax as the only sources of income.

Dwellings

4.12 The District has seen housing growth over the last five years, as a result of a large developments such as those to the west of Horsham and Kilnwood Vale. The Council anticipates that the completion of these developments together with the delivery of new homes in Southwater and Billingshurst will continue to see growth in housing in the District at around 1,000 new dwellings each year over the medium term financial strategy period. The housing industry is highly sensitive to economic factors. Therefore the medium term financial strategy also takes into account a more prudent view of the economic uncertainty and the likelihood that a recession may start to bite in the next year or two.

Local Business Rates

4.13 The Council currently retains around 5% or £2m of the £44m Business Rates collected in the district, which is based on a complex calculation involving target rates of collection set by Government. Local government can increase their business rate income by growing the business rate take in their area; conversely, if collections fall then local government bear an element of risk. Local government currently share this risk and reward with Government 50:50.

4.14 Historical data suggests a 'flat' picture with limited material Business Rates growth envisaged over the period of the MTFS. This area is a 'momentum indicator' where growth is more likely to continue where it is already taking place. Now, on average, every successful new business opening is more or less offset by a conversion of a business premise to residential flats (under the permitted development regime introduced by the Government) or a closure.

4.15 In 2017/18, the 2017 Rateable Value fell by £1.16m over the year. In the first nine months of 2018/19, the 2017 rateable value list has recovered by only £0.13m. Redevelopments in the former Council buildings on North Street, and Piries Place and Swan Walk shopping centre are affecting the Rateable Value. In the longer term, these initiatives and those such as the development of North Horsham and the redevelopment of the former Novartis site may offer some upside but at the moment our economic growth as an area is a long way below the desirable level compared to the affluence of its population.

4.16 The Council is comparatively less at risk in respect of business rate valuations as it has relatively few single significant sites. For example, it is not the site of a power station, airport, major retail park or regional distribution centre. Some risk does exist however; principally around outstanding rates appeals for which the Council would have to bear its share of lost revenue should those appeals prove successful. The Council had a provision of £1.84m for business rate appeals at 31 March 2018. The slow rate at which the Valuation Office is tackling the backlog of appeals makes the Council sceptical that the provision for appeals will fall in the near future.

4.17 Earlier this year, Government announced its revised intention of allowing local government to retain 75 percent of growth of locally collected rates from 2020, rather than 100 percent. How this will happen and what impact it will have on local government remains uncertain. Government has not put forward any formal legislation, but several different pilot schemes are currently operating.

4.18 The Council has been successful as part of a 75% Business Rates pilot bid for 2019/20 with all the local government authorities in West Sussex, although this is just a pilot for only one year, and it is unclear how this might transition into a long term model for the 2020s. From the business rate take in 2019/20, the West Sussex pilot aims to reinvest up to £19m of growth in business rates in full fibre digital connectivity across the county to support the local economy. Although few projects will complete in the year, this could impact our business rates situation later the MTFS period.

4.19 Business rate income will continue to be distributed around the country as before. The 75% localisation refers to the level of growth (or fall) from the baseline that is likely to be significantly reset. The Council will also continue to share this growth (or fall) with West Sussex County Council, although the current share under the 50% scheme (District 40% and 10% County) is also likely to change. For the pilot year at least, the 75% shared by local government will be split 20% District and 55% County.

4.20 In addition, based on the criteria for the pilot schemes, the Council expects that any 75% localisation of Business Rates will involve the replacement of other funding streams and is also likely to come with additional responsibilities that would give rise to additional costs. It is possible that the New Homes Bonus could be made part of this too. That the transferred grants will largely be County Council grants possibly indicates that the increase in local share will go to the County in two-tier areas.

4.21 Furthermore, the increase in the Business Rates multiplier has been switched from RPI to CPI. The multiplier is the annual increase in Business Rates determined by the Government. CPI tends to go up more slowly than RPI so this change is likely to reduce the buoyancy in the Business Rates yield. Over time, this will have a significant impact on the resources that are available to local government as a sector.

Fair Funding Review

4.22 On 13 December 2018, the Government issued a consultation on the Fair Funding Review of relative needs and resources and cost drivers and updating the current needs assessment formulae. This attempts to weigh up a range of cost drivers such as population, rurality, deprivation, demand for social care, transport, waste disposal and fire and rescue service. The output from this will feed into the overall settlement offer for 2020 onwards. This paper also includes questions about taking into account surpluses on sale, fees and charges, and especially those from parking. The Government has not previously included local authority generated income in this way in its papers and our projections assume in the future we retain all our sales, fees and charges alongside Council Tax as our two main funding streams. If this assumption is incorrect then Horsham District Council's financial position could become significantly worse than currently shown.

4.23 The indications so far are that districts and especially those which have low need and a higher proportion of wealth will lose out. If previous changes are a guide though, there will be some transitional arrangements, which will dampen the effect, but Government has indicated that any period will be short in order to redistribute funding as quickly as possible.

4.24 At this point it is difficult to calculate the effect of both the Fair Funding Review and the effect of business rates localisation. Not enough detail is known about the potential changes but the Council can conclude that there is a high degree of uncertainty, especially beyond 2020. The Council has assumed that a significant re-baselining of business rates will occur and expect the cancellation of negative RSG in 2019/20 to be carried forward into the 2020/21 baseline. The Council therefore estimates a Business Rate income of about £400k in 2020 rather than the current £2m, with this falling to zero in 2021/22 once the damping effect from the Fair Funding Review wears off. The Council will revisit the impact of this as it learns more about how the final schemes will work and will feed this into a future MTFS.

New Homes Bonus

4.25 The New Homes Bonus (NHB) provides an incentive payment for local government to stimulate housing growth in their area. The calculation is based on Council Tax statistics submitted each October. In two-tier local government areas this payment is currently split in the ratio 20% to county councils, 80% to district councils. NHB is currently not ring-fenced and can be spent at the Council's discretion.

4.26 The incentive has been sharpened since its introduction reducing the payment from six years to four years, and introducing a 0.4% baseline that needs to be exceeded before any NHB payments are made. For this Council, this means that approximately 250 band D equivalent dwellings need to be built before any grant is received.

4.27 No changes were made to the scheme for 2019/20. **Appendix H (figure i)** models the provisional income based on the number of dwellings in the Council Tax Base form at October 2018 and with the current format continuing, although this is not thought to be a likely ongoing scenario. The Council will receive a payment of £974k for 2019/20, which is lower than the last couple of years. The number of dwellings added between October 2017 and October 2018 dropped to 845. Counterbalancing this, the national average council tax payment per dwelling has increased, there was a relative increase in the number of band E to H homes, and the district has also benefited from the £350 affordable homes bonus on nearly 380 homes this year; three times the 2018/19 number.

4.28 Government has previously indicated further sharpening is likely and **Appendix H (figure ii)** models a reduction to payments for only three years and an increase in the baseline to 0.7%, lowering the future amounts the Council will receive.

4.29 Over the summer, there have been suggestions the Government believes the grant has been unsuccessful in delivering housing. This could lead to it being significantly altered or withdrawn in 2020 and there is a suggestion the £900m funding may be used as a counterweight in any 75% localisation of Business Rates scheme that may happen in 2020. This is modelled in **Appendix H (figure iii)**. Due to this overhanging threat, during 2017/18 and 2018/19, the Council removed its revenue reliance on NHB to zero in contrast to the £1.17m that was included in the 2016/17 revenue budget. Government is yet to confirm that NHB will continue at all into the 2020s.

4.30 The principle of using any NHB reserve to strengthen the Council's ability to generate income from appropriate investments in order to receive income to support future service delivery and secure the delivery of infrastructure to serve the needs of the district's residents is unchanged.

4.31 The NHB reserve will stand at £4.2m at 31 March 2019. Depending on the severity of the sharpening of the scheme, the reserve is forecast to be between £1m and £7m by 31 March 2023, after allowing for allocations to fully fund the new Broadbridge Heath leisure centre and running track, and then annual investment of £3m in property. This is all subject to house building continuing at the same rate.

External financial pressures

4.32 An increase in demand and the introduction of the Homelessness Reduction Act in April 2018 led to a significant increase in the cost of homeless services during 2018/19. This is being felt by districts all across the County, largely due to longer stays in bed and breakfast accommodation required by the Act. The overall increase for homeless accommodation provision in the first eight months of the year is in the region of 40 households when compared to the last four years. The forecast for 2018/19 is a £300k overspend in housing and the MTFS has built some of this additional spend into the budget. Some mitigation against the higher demand for bed and breakfast accommodation is already in progress such as the provision of additional temporary housing units.

4.33 West Sussex County Council (WSCC) has identified the need to make efficiencies over the next four years to balance their budgets over the medium term financial strategy. WSCC are considering some tough options as part of the 2019/20 budget setting process targeting some discretionary service areas.

4.34 One likely discretionary reduction is funding housing related support, which is currently commissioned by County, often through contracts with voluntary sector organisations. The restructure of services such as at the Y Centre building in Horsham could lead to an increase in the numbers of unintentionally homeless people that Horsham District Council would have a statutory duty to house. Consequently, this could lead to more demand for housing services provided by the Council, therefore increasing costs.

4.35 WSCC has already approved plans to reduce their current £6m core budget on discretionary housing support to £4.6m in 2019/20 and then £2.3m in 2020/21. WSCC will terminate all current contracts by 30 September 2019 and County will develop new contractual arrangements to commence on 1 October 2019. Additional assurance on the implementation period and impact mitigation will be provided through a continuous review process with providers and partners between January and September 2019 to ensure that the revised contracts are deliverable and the impact of these changes are minimised.

4.36 For this Council, the impact of County decisions on housing services after mitigation is estimated at around £150k for a half year, and this has been built into the 2019/20 budget.

4.37 It is possible that other WSCC decisions will also affect the Council's income. For example, WSCC currently pay funding for recycling credits above the statutory minimum level to encourage levels of recycling and reduce the amount of residual waste. WSCC may decide in the future to pay only the statutory minimum, which would result in a reduction of income to the Council for the recycling credits. Whilst the 2019/20 budget includes full payments from County, there is a risk that payments such as these are withdrawn too.

5 Draft Revenue Budget for 2019/20

5.1 The 2019/20 budget has been prepared following a detailed "Budget Challenge", with Heads of Service challenged to increase revenue streams and reduce expenditure. The challenge process is there to ensure that excessive budgeting is avoided, additional income is found and efficiency savings are made. It also ensures that adequate resourcing is provided to meet service delivery items.

5.2 The budget requirement is for £10.435m. The detail of the revenue budget is shown in **Appendix A**. Due to the unexpected elimination of £0.7m negative RSG in 2019/20, the budget will generate an estimated surplus of £1.3m which should be earmarked into a transformation reserve and used to fund the further transformation required to help deliver the £1.3m of recurrent savings and income needed to balance the budget by 2022/23.

5.3 The main items of growth and savings in the 2019/20 budget are detailed in **Appendix B**. Salaries remain a significant cost pressure of approximately £350k in 2019/20 relating to a 2% pay award to staff and a number of increments and including changes to the lower NJC pay grades. The Council has tried to mitigate the increase by reducing posts and hours where possible, although there is an overall growth in headcount. This comprises amongst other things, the recruitment of more neighbourhood wardens and a community warden supervisor, staff at the Capitol, an

IT developer and information security officer within technology services to add capacity to support improvement changes in digital content and two homeless prevention officers. There is also £200k of growth in casual staff and overtime, net of a reduction in agency staff, to be able to continue to deliver an increasing level of services and generate more income.

5.4 Other significant items of growth include the increased costs of housing services and Bed and Breakfast in particular, rising fuel costs that have increased by 10% in a year, general maintenance programme costs, vehicle repairs and hire, projects to increase the quality of recycling and a Business Improvement District proposal for Horsham town centre.

5.5 With continuing pressures on the Council's budget and the on-going challenge this presents to future service delivery, in particular discretionary services, it is necessary that where possible services generate sufficient revenue to cover their cost of delivery. In 2019/20, this includes further income from continuing the diversification of income options within the treasury management investment strategy, income from the Capitol, parking volumes in urban and rural areas and changes in the leisure centre services income from new contract arrangements. However, in 2019/20, there are no increases in the garden waste collection charges.

5.6 The Year of Culture is one of the most ambitious and significant revenue projects in 2019. To deliver the extensive programme of supported events, additional funding of £300k spread over three years was approved in 2017/18, with 2019/20 the final year. This was over and above the budgets that already exist for arts, culture and community. The current projected spend is within the budget but this does rely on the delivery of significant income through ticket sales. This is a risk and the Council has modelled three scenarios to help manage this risk. The scenarios range from a small surplus to a potential overspend of £140k. Progress on the financial aspects of the Year of Culture will be reported through the Council's normal budget monitoring mechanisms.

5.7 In total, the additional income and savings generated exceeds the cost pressures and the net budget at £10.435m requirement is £0.3m lower than the £10.72m from the previous year.

5.8 The budget also includes £226k of grants to the voluntary groups, the largest being £94k to the Citizen Advice Bureau in Horsham. A full list is included in **Appendix C**.

6 Special charge

6.1 Details of the Special Charge expenditure of £300,370 are included in **Appendix D.** The proposed the Special Charge for 2019/20 is set at £25.56, and is sufficient to fund the proposed Special Expenses. The increase in the special charge was discussed with the Neighbourhood Councils in December 2018.

7 Council Tax for 2019/20.

2019/20 **£000**		**2018/19** **£000**
10,435	Net expenditure	10,714
1,304	Contribution to / (from) general reserves	611
11,739		11,323

0	Revenue support grant	0
(4,807)	New homes bonus	(4,827)
4,807	Less contribution to new homes bonus reserve	4,827
(2,029)	Business Rates retention scheme baseline	(1,899)
0	Business Rates retention scheme net additional business rates	(200)
9,710	Expenditure to be financed from District Council Tax	**9,224**
(300)	Less funding by Special Charge taxpayers	(284)
(65)	Less share of estimated (surplus) / deficit on Collection Fund	(82)
9,344	Expenditure to be funded from District Council tax	8,859
62,187	Estimated band D equivalent properties	60,846.5
£150.26	Council Tax at band D	£145.60
£2.89	Cost per week at band D	£2.80

Table 3 – Council Tax for 2019/20.

8 Capital Budget

8.1 The Council has applied its project management methodology to projects detailed in the Capital Programme for 2019/20 and completed business cases to ensure that decisions taken by the Council represent Value for Money.

8.2 At month 9, officers are forecasting delivery of £15.6m (57%) of the £27.4m 2018/19 programme. At this stage, approximately £3.7m of unspent items will be removed as no longer required and £8.1m will be re-profiled into 2019/20.

8.3 The proposed £19.3m capital programme in 2019/20, includes completion of approved schemes from preceding years such as the schemes on the Broadbridge Heath leisure centre and more recently the redevelopment of Piries Place car park, temporary accommodation in Billingshurst and redevelopment contractual costs in Swan Walk. 2019/20 also includes £2m re-provision of the running track at Broadbridge Heath (with £0.5m in 2020/21), a straight line profile £3m of the five year £15m property investment fund programme, £1.4m grant funded disabled facilities and home repairs grants, £1m of housing enabling grants and £0.5m on the annual vehicle replacement programme. There are also 19 other new schemes totalling £3m of which a third has identified funding sources, with the remaining two-thirds currently unfunded. Summary details of new schemes are in **Appendix E (ii).**

8.4 The full draft capital programme for 2019/20 is in **Appendix E (i).** The new programme for 2019/20 is for approval by full Council. Budgets for future years are included to indicate the scale of provision that may be required to maintain the life of the Council's assets and meet the aspirations in the Corporate Plan.

Minimum Revenue Provision

8.5 The Council is required to set aside funds to repay the borrowing need each year through a revenue charge called the minimum revenue provision. The regulations require full Council to approve a statement of the provision in advance of each year and the statement is in **Appendix F**.

Prudential Code and Capital Strategy

8.6 The Local Government Act 2003 requires the Council to have regard to the CIPFA Prudential Code and the Ministry of Housing, Communities and Local Government (MHCLG) guidance. Both have been significantly revised and extended to cover more of the Council's commercial activities, notably commercial property. The objectives of the Prudential Code remain to ensure, within a clear framework, that the capital investment plans of local government authorities are affordable, prudent and sustainable, and that any investment management decisions are taken in accordance with good professional practice.

8.7 The Capital Strategy and the associated treasury and non-treasury investment strategies were considered by the Audit Committee on 6 December 2018. It gives a high level picture of the Council's capital plans including financing and the overarching strategy of investment in traditional financial investments and non-treasury investments such as service loans and commercial property. The committee was asked to approve the preliminary Capital Strategy as the appropriate overall approach.

8.8 The final capital programme for 2019/20 has changed slightly compared with the version tabled at the Audit Committee on 6 December 2018 but the changes are not significant to the overall strategy, so it remains substantially the same as seen by the Audit Committee. The Audit Committee was also asked to recommend that the Council approve the Treasury Management Strategy and Investment Strategy that fits in with the overarching Capital Strategy.

8.9 The final revised Capital Strategy and estimates to be adopted by the Council are set out in **Appendix G**. The Council are asked to adopt them as the final group of prudential indicators. This report revises the indicators for 2017/18, 2018/19 and 2019/20 and introduces new indicators for 2020/21.

8.10 The major indicators are the projected financing of capital spend, the Capital Financial Requirement and projected debt. The Council's Capital Financial Requirement is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. The Capital Strategy also sets limits on external debt and sets the overarching arrangements for borrowing, treasury investments, investments for service purposes and investments in commercial property for financial return.

9 Reserves

9.1 There will be a cost in implementing the transformation for which £0.5m each year is envisaged in 2019/20 through to 2021/22 and it is anticipated that this will be funded by the surpluses in these years. The transformation will help balance future budgets and protect the level of general fund reserves as set out in **Appendix I**.

9.2 The Council agreed in October 2012 on a minimum level of general reserves of £6m. From 2020/21 onwards income from Government is very uncertain due to the consultation around business rate localisation and the Fair Funding Review. The Council's current strategy on reserves gives sufficient flexibility and headroom to deal with any issues that arise. Implementing transformational efficiencies and planned income schemes result in surplus budgets through to 31 March 2020. Apart from funding this transformation, the Council should not need to dip into general reserves in this period. Applying reserves in excess of the minimum level to finance the capital programme helps to reduce the MRP charge. Therefore the general fund balance is anticipated to be around the £6.5m mark at the end of 2019/20 and remain at this level throughout the MTFS period unless any further information from the Government or changes in the economy indicate a substantial worsening of our financial position beyond that currently predicted.

9.3 The Council will continue to review potential actions that it could take towards further transformation and / or income generating ideas to balance the budgets in 2020/21 through to 2022/23. These will be brought back in more detail in the next medium term financial strategy. A selection of potential efficiencies and income have already been generated and the programme will be constantly revisited and extended over the coming months. This will look at new sources of income, reviewing our workforce especially around recruiting and retaining local staff and supporting our people to take on broader and more complex roles, reviewing services to see if we can provide the same more efficiently, replacing our technology with cheaper, Cloud based options and increasing the amount of self-service using the internet and social media.

9.4 The current selection in aggregate is sufficient to close the budget gap in the future and it is expected that as the Council gets to these years, the budgets would be firmed up with actual efficiencies and income to balance the budget. However the difficulty is in actually delivering, rather than identifying potential areas, and work will get underway in plenty of good time in 2019 to maximise the opportunity for success.

10 Risks

10.1 The medium term financial strategy takes a prudent but balanced view of the financial future, but continuing to take further action is also important to also help mitigate the risks that the Council faces over the medium term. These risks are set out in summary below and include:

- late delivery of transformation savings and income
- lower savings or income as it can't be delivered to the size / scale envisaged
- income may be affected by external factors such as a recession. A recession is probably due towards the end of the decade
- economic uncertainty in Europe
- a new baseline for business rates and 75% localisation
- Fair Funding review outcomes and / or further or steeper funding cuts / to help Government meet deficit reductions targets, including any impact on locally generated sales, fees and charges from the Fair Funding Review
- legislation forcing local government to pick up additional responsibilities that we don't yet know about

11 Next steps

11.1 The Council meeting on 13 February 2018 will set the Council Tax for 2019/20.

12 Views of the Policy Development Advisory Group and outcome of consultations

12.1 The proposed budget, medium term financial strategy and assumptions and capital programme were considered by the Finance and Assets Policy Development and Advisory Group at its meeting on 7 January 2019 and the Group was supportive of the proposed strategy.

12.2 The Medium Term Financial Strategy was also recently reviewed at Cabinet on 22 November 2018 and approved by Council on 5 December 2018, which has allowed all Members the opportunity to discuss and review the medium term financial strategy proposals in advance of the 2019/20 budget setting process. The Leader, Deputy and Cabinet Members were also briefed on the proposed 2019/20 budgets on 20 December 2018.

12.3 The Chief Executive, Directors and the Head of Finance have been extensively involved in preparing the medium term financial strategy and are fully supportive of its contents. The Monitoring Officer has also been consulted during the preparation of the document and is supportive of its contents.

13 Other courses of action considered but rejected

13.1 Not taking actions set out in this report would put at risk the ability of the Council to balance the budgets from 2019/20 through to 2022/23. Therefore, not taking any action has been rejected.

14 Resource consequences

14.1 The size of the Council's workforce has reduced overall since 2016 as set out in table 4, which also partly reflects the end of the Census ICT partnership which Horsham hosted where some staff TUPEd back to the two partnering local government authorities. During 2018, headcount has increased due to the recruitment of apprentices, neighbourhood wardens, and permanent waste and recycling loaders and planners. This is budgeted to continue in 2019 with for example growth in technology services and digital content editor to enable channel shift to better online customer pathways.

Table 4 - Resources

Date	Full Time Equivalents (FTE)
31 March 2016	422
31 March 2017	417
31 March 2018	398
30 September 2018	409
*30 September 2019	413

* estimated

14.2 Transformation may lead to changes in the size of the workforce over the next three years as the Council strives to do things in a different way. As well as new areas of growth, there may be further reductions, currently estimated at around 10 posts, which will be firmed up as detailed plans for the individual elements are finalised.

14.3 In accordance with the Organisational Change Policy the Council will take steps to avoid compulsory redundancies as far as possible through a combination of vacancy control, redeployment and, in appropriate cases, voluntary redundancy.

15 Legal consequences

15.1 Section 25 of the Local Government Act 2003 requires Chief Financial Officers to report to their Council about the robustness of estimates and the adequacy of reserves when determining their precepts, and local government authorities are required to take the Chief Financial Officer's report into account when setting the Council Tax.

15.2 The Council Tax in England and Wales is provided for and governed by the provisions of the Local Government Finance Act 1992. Within this Act, the Council is designated as a "Billing Authority", responsible for the billing, collection and enforcement of Council Tax.

16 Risk assessment

16.1 The Council's reliance on Government controlled funding and balancing the Medium Term Financial Strategy is captured on the Corporate Risk Register at CRR01. This is regularly reviewed and updated and is monitored at Audit Committee.

17 Other considerations

17.1 The Equality Act 2010 includes a public sector equality duty which requires local government authorities when exercising functions to have due regard to the need to eliminate discrimination, harassment and victimisation and other conduct prohibited under the Act and to advance equality of opportunity and foster good relations between those who share a "protected characteristic and those who do not share that protected characteristic". When a Budget proposal has implications for people covered by the Equality Act 2010, the Council must take account of the Equality Duty and any particular impact on the protected group. There are no equality implications in regards to this proposed budget.

17.2 There are no negative consequences of any action proposed in respect of Crime & Disorder; Human Rights; Diversity and Sustainability.