Report to Cabinet

28 November 2019

By Ray Dawe (Leader and Cabinet Member for Finance and Assets)

DECISION REQUIRED

Not Exempt

Horsham District Council

Medium Term Financial Strategy 2020/21 to 2023/24

Executive Summary

The review of the Financial Strategy, as part of the budget setting process, enables a balanced budget target to be established with a focus on an affordable level of Council Tax, delivery of the corporate priorities and policies of the Council and the continued enhancement of value for money and satisfaction with services for the residents of the District.

The 2019/20 Budget was approved in February 2019. A small budget surplus was projected for 2019/20, with near balanced budgets in 2020/21 and 2021/22, provided cumulative income and savings are delivered. The Council has continued to work on areas of income generation, a 'digital' transformation journey and other efficiency measures to mitigate against the cost pressures that continue to rise. Near balanced budgets through to 2023/24 remain predicted, although achieving this requires some political decision making.

This report sets out the proposed strategy for the period 2020/21 to 2023/24 to establish the context for the Council's budget and medium term financial planning scenarios and assumptions. This is done in the context of unprecedented levels of uncertainty. The impact on the Council from the future of business rates and the Fair Funding Review in the 2020/21 budget setting process has been delayed by Government's parliamentary election and until the UK's relationship with the European Union is resolved. The funding for the 2020/21 budget year is being prepared based on a 'same as last year' theory. However, with the existing political and therefore financial uncertainty being exceptionally high, the actual budget and MTFS that Council will set in February 2020 for 2020/21 may well be subject to change.

Recommendations

The Cabinet is asked to recommend to Council:

i) the approval of the Medium Term Financial Strategy 2020/21 to 2023/24, and:
ii) note the projected budgets and potential actions as detailed in paragraph 3.53 and table 4 of the report.

Background papers 2019/20 budget setting papers to Council on 13 February 2019.

Wards affected: all

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Background Information

1 Introduction and background

1.1 The Medium Term Financial Strategy was last fully reviewed by Council on 13 February 2019 as part of the annual budget setting cycle. At that meeting a budget surplus for 2019/20 was approved. Cabinet and Members have been kept informed of progress with the development of the new strategy via quarterly budget monitoring and officer presentations.

1.2 The local government finance system is complex and faces an uncertain future. Government has postponed the review of retained Business Rates and the Fair Funding Review to focus on Brexit and now a parliamentary election. Councils are not sure how the sector will be financed beyond 2020. While it seemed fairly certain that the direction of travel will remain towards fiscal self-sufficiency and that the amount of money available to district councils will continue to reduce over the next five years, the short term political situation creates an unusually high degree of uncertainty. That said, funding pressures caused by the demands of social care at upper tier levels indicates that funding is still likely to be 'diverted' from Districts towards County / upper tier authorities that are suffering the most.

1.3 Each year as the budget is set, unavoidable growth becomes apparent in the services. This is because of increased responsibilities from legislation, contractual obligations and inflationary pressures. Near balanced budgets through to 2023/24 only remain predicted through a combination of a range of measures including income generation and other efficiency measures, as well as some political decisions. The Council is undertaking a major programme of digital transformation to meet the demands and expectations of our customers, funded from reserves which will then be replenished from anticipated efficiency savings.

1.4 This review ensures that the 2020/21 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.

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 The four-year settlement through to 2019/20 provided a relative degree of certainty in that the levels and reductions in Revenue Support Grant and the baseline Business Rates funding level were known during this period. In September 2019, the Chancellor announced that the 2019 Spending Review had been postponed until 2020. A parliamentary election will take place on 12 December 2019. It is more likely that not that whatever the outcome, a one-year 'stopgap' spending round covering 2020/21 will take place, and this MTFS has been produced on this basis. The Council is hopeful that the detailed financial settlement for 2020/21 will be communicated to us before the budget is set and approved in February 2020.

3.2 Government has been focused on Britain's exit from the European Union which was due to happen on 31 October 2019. Sterling depreciated during mid-2019 as the perceived probability of a no-deal Brexit rose but recovered in October 2019 following the EU granting a further delay. The economic outlook will depend significantly on the outcome of the UK's withdrawal from the EU and how households, businesses and asset prices respond. The Bank of England has held interest rates at 0.75% since August 2018, and this low level is now predicted within the period of this MTFS. The Bank of England's £445m quantitative easing programme also remains in place.

3.3 Inflation is relatively stable at around 2% but the impact from the cost of fuel though is still slowly rising. 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. Figures from Horsham car parks and planning fees income will be closely monitored in case reductions in these are early signs of a downturn in the local economy. 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 MTFS have been revisited in the sections below.

Budget assumptions

3.4 Future budget projections are based on a number of assumptions. Table 1 sets out the budget assumptions at November 2019 and Table 2 the forecast revenue budgets in 2019/20 through to 2023/24 before any political decisions are applied. Details of the budget assumptions and the reasons for the change in assumptions are explained in the following paragraphs.

Table 1: Budget assumptions each year

	November 2019			
Budget Assumptions	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Pay award annual average 2%	£325k	£325k	£325k	£325k
Inflationary pressures approx. 2% (1.7% CPI to 2.4% RPI)	£200k	£200k	£200k	£200k
A reduction of employer's pension contributions of 2.5% over the next triennial review period.	-0.5% (£80k)	-1% (£160k)	-1% (£160k)	0%
Increase in borrowing costs	£0k	£0k	£50k	£50k
Increase in dwellings	1,000	1,000	1,000	1,000
No increase in Council Tax	-	-	-	-
Reduction in government grant funding	£0k*	**£1,200k	**£800k	**0
Minimum level of reserves	£6m	£6m	£6m	£6m

* Assuming the one-year spending review broadly keeps things the same in 2020/21 as 2019/20, deferring the changes from the localisation of business rates and the Fair Funding Review to 2021/22.

** 75% localisation of Business Rates growth is expected to confirm the permanent end of other forms of grant funding, such as RSG and result in a significant re-baselining of NDR income at a much lower level as well. Regular future re-baselining will reduce the 'growth' retained locally.
By 2022/23, the Council would not have any non-specific government funding.

Table 2: Revenue budget forecast

November 2019	2019/20	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000	£000
Net expenditure	10,435	11,650	12,250	12,250	12,625
Officer actions 'identified' for in-year income and savings	In budget	(160)	(375)	(160)	(75)
Revised expected net expenditure	10,435	11,490	11,875	12,090	12,550
Funded by:					
Council Tax	(9,598)	(9,740)	(9,875)	(10,015)	(10,150)
Government grant - Business Rates	(2,029)	(2,030)	(800)	0	0
Additional Business Rates retained	0	0	0	(50)	(50)
Collection Fund (surplus) / deficit [timing from prior year]	(227)	-	-	-	-
Total funding	(11,854)	(11,770)	(10,675)	(10,065)	(10,200)
Net (surplus) / deficit	**(1,419)***	**(280)**	**1,200**	**2,025**	**2,350**

* In December 2018, at the eleventh hour, Government reversed its intention and eliminated negative RSG in 2019/20, meaning the Council was £0.7m better off in 2019/20 than anticipated. We expect this to remain a short term measure until the Fair Funding Review and localisation of business rates is worked through. This is shown above through the government grant line.

Inflation cost pressures and interest rates

3.5 Local Government pay is negotiated nationally and the Council has no direct influence on the settlement. The local government pay award was 2% in 2019/20 and a 2% pay increase each year through to 2023/24 has been budgeted in the MTFS above. In expenditure terms this equates to approximately £325k of additional expenditure per annum.

3.6 Britain's exit from the European Union increases the uncertainty on the rate of inflation over the next three years. The MTFS currently budgets for around a 2% increase in inflation on the expectation that inflation will remain at or near current levels. The Bank of England suggested in its August 2019 inflationary forecast Consumer Price Index (CPI) will remain around its own target of 2%, although it has currently fallen to 1.75%. Retail Price Index (RPI) though tends to be around 0.7% to 0.8% higher. Whilst income is also affected by inflation, inflation also increases our expenditure that offsets the increases in Council Tax and charges. The impact of inflation on the MTFS will be revisited on a regular basis as the monthly statistics are released by the Office of National Statistics.

3.7 The actuary has reviewed the assumptions at the 2019 triennial review. The overall pension fund is in surplus. The interim valuation of the Council's pension fund was a £3m asset at 31 March 2019. The actuary is recommending a 2.5% reduction in employer pension contributions over the period, from the current 20.5% to the pension fund's minimum level of 18% per annum in 2022/23. The 2.5% reduction equates to approximately £0.4m decrease in annual employer contributions in monetary terms. The fund has benefited from some small revisions to the assumptions such as the life expectancy not increasing quite as fast as anticipated three years ago, and a much greater than anticipated investment return over the last three years. However, it is worth remembering that the pension fund has spent more years in deficit than in surplus and the positon can quickly decline, due to any further changes in actuary assumptions increasing the liabilities, as well volatility of asset values and the value of assets falling. The contributions positon will be regularly revisited during the interim pension fund valuations until the next triennial valuation in 2022.

3.8 The Bank of England base rate has been held at 0.75% since August 2018, the highest level since March 2009, but remains at a relatively low level, affecting the Council's income streams from investments. The Council has taken action over the past three 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, low interest rates impact on the Council's ability to generate income from investments during the period.

3.9 The amount of money the Council has on deposit generating interest income is also likely to decrease as the proposed strategy to spend commuted sums on affordable housing through the Council's housing companies will lower the amount of funds held by the Council. Planned capital expenditure will also reduce other funds held by the Council. The Council had to borrow short term in 2017/18, and this is expected to happen again and eventually transition to longer term borrowing towards the end of the MTFP. The positive side of the low Bank of England base rate is that the cost of borrowing is also relatively low, although the Treasury raised the PWLB borrowing rate by one percentage point overnight in October 2019.

3.10 Economic forecasters are divided on the future levels of interest rates and much may hinge on the outcome of Brexit. During 2019, our treasury management advisors' opinion has reduced the likelihood of a small increase over the three-year period to one that now remains at the current rate of 0.75%.

Council Tax

3.11 The Council increased Council Tax by £3.93 in 2019/20 which equated to the CPI index at the time, and an increase of 2.7%. It remains the lowest Council Tax in West Sussex and in the bottom quartile of all district councils. It is anticipated that the Government's assumptions for district councils will remain unchanged in the short term in that they would be able to increase Council Tax by the larger of 2% or £5 each year. The MTFS in table 2 does not include any increase in Council tax in the model.

3.12 An increase of 2% (between £2.99 and £3.17) has been modelled in potential actions in table 4, paragraph 3.53, to show the effect on the MTFS projections. Every £1 or 0.67% increase in Council tax increases income by approximately £66k.

Localisation of Business Rates

3.13 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 authorities can increase their business rate income by growing the business rate take in their area; conversely, if collections fall then local authorities bear an element of risk. Local authorities share this risk and reward with Government.

3.14 Historical data suggests a fairly ‘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. There have been a number of conversions of business premises to residential flats (under the permitted development regime introduced by the Government) and a number of retail premises have closed. Since, the 2017 Rateable Value (RV) list was introduced on 1 April 2017, it has fallen by over £1.8m. Redevelopments in the former Council buildings on North Street, Piries Place and Swan Walk shopping centre are affecting the RV. 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 for affluence of its population.

3.15 In comparison with other authorities though, the Council is comparatively less at risk as it has relatively few single significant sites, such as an airport of power station, in respect of business rate valuations. 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 £2.5m for business rate appeals at 31 March 2019. 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.

3.16 In addition, an NHS case is being heard at the High Court in November 2019 demanding that all NHS trusts are treated as charities in order to qualify for mandatory business rate relief. This could significantly affect the whole of local government. Whilst compared to other authorities the exposure is relatively low as we have no large hereditaments, this would still significantly affect the Council. The Council has only provided for appeals directly received, rather than for this outcome.

3.17 Government has previously consulted on a ‘75% localised’ business rates scheme, but how and when this will happen and what impact it will have on local government remains uncertain. No formal legislation has yet been put forward by Government. Indeed, some commentators are critical of the business rates retention system altogether.

3.18 A 75% localisation scheme refers to the level of growth (or fall) from the baseline, the latter expected to be significantly and then regularly reset. The Council will also continue to share this growth (or fall) with West Sussex County Council. In the 2019/20 West Sussex pilot scheme, the share was Government 25%, WSCC 55% and the Council 20%.

3.19 Implementation of the new system is being deferred to 2021/22 or later. Government has disbanded the 75% pilot scheme for 2020/21 but the Council will remain in the West Sussex pool and share any overall growth in the county. Whatever happens, it is anticipated that business rate income will continue to be distributed around the country in a similar way to before.

3.20 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. 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

3.21 The Government has consulted 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 a multi-year settlement offer which is now likely to be from 2021 onwards.

3.22 All the signs and indications so far point towards districts and especially those which have low need and a higher proportion of wealth losing the most. Some extrapolations, if all worst case scenarios happen, could see this Council lose up to £7m funding or more per annum if parking income is included in the calculations. If previous changes are a guide, there will be some transitional arrangements, which will dampen the effect, but government has already indicated that any period will be short in order to redistribute funding as quickly as possible.

3.23 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 2021. The Council has made the assumption that a significant re-baselining of business rates will occur. The Council estimates a Business Rate income of about £800k in 2021 rather than the current £2m, with this falling to zero in 2022/23 as the damping effect from the Fair Funding Review wears off. The Council will revisit the impact of this as it learns more of how the scheme will work and will feed this into a future MTFS.

New Homes Bonus (NHB)

3.24 The New Homes Bonus provides an incentive payment for local authorities 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.

3.25 The incentive has been sharpened since its introduction reducing the payment from six years to four years, and introducing a 0.4% baseline which needs to be exceeded before any NHB payments are made. For this Council, this means that approximately 240 band D equivalent dwellings need to be built before any grant is received.

3.26 Government believes the grant has not been successful in delivering 'additional' housing and has now strongly indicated that NHB in its current form will end. The 2019 Spending Review altered the scheme to remove any 'new' legacy payments from 2020/21 and previous legacy payments will end in 2022/23. This rapid phasing out indicates Government's intention to phase out and replace NHB sooner rather than later.

3.27 The technical consultation paper for the Local Government Finance Settlement 2020-21 informed us of Government's intention to look again at the New Homes Bonus and explore a more effective way to incentivise housing growth. Government will consult widely on proposals prior to implementation, and we expect this to determined in the 2020 spending review. The ending of legacy payments heavily indicates that some, or all of the overall £900m funding pot will be used as a counterweight in any 75% localisation of Business Rates scheme and Fair Funding review in 2021/22.

3.28 Any alternative or replacement scheme, if it happens, could change the payment ratio between district and county to one more favourable to county. This would reduce the future amounts the Council will receive. 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.

3.29 The ending of NHB is modelled in Appendix A based on the estimated income from the number of dwellings in the Council Tax Base form at October 2019. The NHB reserve stood at £4.3m at 31 March 2019. The reserve is now forecast to run down to £1.1 by 31 March 2024, after allowing for annual investment equivalent to £3m in property or similar expenditure.

3.30 This is on the assumption that the scheme winds down, and 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 resident remains unchanged.

External financial pressures and budget growth areas

3.31 The impact of the Homelessness Reduction Act in April 2018 is still being felt by districts all across the County, with increases in the cost of homeless services, largely due to longer stays in bed and breakfast accommodation required by the Act. The Council has taken measures to increase the number of temporary accommodation units in the district which is mitigating the impact but the cost pressures are still being felt. Other actions are being reviewed.

3.32 West Sussex County Council (WSCC) has seen a reduction in core Government funding of £155m in the last eight years and has delivered savings and efficiencies to balance the budgets to date. WSCC has identified the need to save a further £75m over the next four years in their medium term financial strategy. WSCC have been considering some tough options as part of the 2019/20 budget setting process, targeting some discretionary service areas, which could impact on the Council if these reductions go ahead.

3.33 One proposed discretionary reduction is funding housing related support, which is currently commissioned by County through contracts with voluntary sector organisations. Closure of services such as at the Y Centre building in Horsham could lead to an increase in the numbers 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. WSCC is currently working with district councils to work through how this might be funded to avoid such closures.

3.34 The Council's income will also be affected by WSCC's decisions, most notably for the termination of funding for recycling credits above the statutory minimum level to encourage levels of recycling and reduce the amount of residual waste. This will result in a reduction of £850k of income to the Council for the recycling credits in 2020/21.

3.35 Government's resources and waste strategy currently proposes that all local authorities should be collecting food waste by 2023 and there is a growing appetite across authorities in West Sussex to do this. WSCC is coordinating the collection of data across the County and is using a consultant to try to calculate likely implementation costs and benefits to the recycling rates. The Council is in the early stages of considering whether it might introduce this in 2021/22.

3.36 It is currently unknown whether Government will contribute any funding towards the cost of the infrastructure, including the food waste caddies and vehicles, or the fuel and manpower needed to collect from every doorstep on a weekly basis. The MTFS has been updated to include an estimated revenue cost of £0.4m during 2020/21. The work being undertaken by WSCC and Council officers will refine this figure in future budgets, alongside any external funding we can secure to achieve this objective. WSCC has indicated that some recycling credits may be available to districts who adopt the 1:2:3 collection of weekly food, fortnightly recycling and residual waste every three weeks; a model that other authorities in the UK have already adopted.

3.37 The year of culture project had an initial budget of £300k over three years for a celebration of culture and heritage within the district, with a focused programme of events in 2019. To help leave a cultural legacy, the Council is planning to invest £88k per annum, initially for a two year period, in an operational officer and a strategic officer so that it can be enjoyed by residents and visitors long after 2019.

3.38 The Council is also committed to taking practical action to protect our natural environment and to tackling climate change. As set out in a separate paper on the agenda, the Council plans to create a unique partnership with Sussex Wildlife Trust to encourage wildlife to thrive across the district by expanding natural habitats. The financial consequence is around £114k a year, initially for a five-year period, totalling £570k. An earmarked reserve will be created to fund this for the initial five-year period. The initiatives and effectiveness of this planned programme will be reviewed as it develops.

3.39 The work to reverse the decline in nature across the district is complementary to the council's agenda on tackling climate change. For example, actions such as planting trees and improving soil condition remove carbon dioxide from the atmosphere (carbon is one of the main contributors to the changing climate). Work on the Council's own carbon emissions is also underway and the information will be used as the basis for setting a target to reduce these emissions and an action plan to achieve this target. Once the baseline is established, it is likely to require significant funding to achieve progress towards carbon neutrality. In the meantime, a £200k earmarked reserve will be created, to fund up to £40k a year to support community groups and Parish Councils wanting to implement projects that address climate change over the next five years. The total earmarked 'green' reserves for these two green initiatives will be £770k.

Capital programme

3.40 The 2019/20 capital programme included the completion of the £8m Piries Place car park, building temporary accommodation and commercial investment property, with the programme totalling £21.2m. At month 7, having spent £5.8m (27%), capital budget holders are somewhat optimistically anticipating that £15.2m (72%)

will be spent by 31 March 2020. This compares to the 2018/19 outturn of £14.5m (53%) of the £27.4m capital budget.

3.41 The main areas of underspend include no expenditure on the £2m Broadbridge Heath running track replacement or on £3m commercial investment property, or on the £1m Denne ward community facility at Highwood.

3.42 The provisional 2020/21 capital programme includes around 10 new capital programme bids totalling £1m that have been put forward for consideration and the business cases are currently being reviewed. Amongst the schemes are improvements to rural and urban carparks, the town centre, parks and countryside and equipment in the Capitol. The two-stage challenge process will refine this list before the capital programme is finalised in January 2020.

3.43 A large capital programme impacts on the Council's minimum revenue provision (MRP is a prudent mechanism to pay back the capital), and any interest payments on any borrowing if needed. Estimated MRP expenditure of around £0.95m per annum is forecast each year from 2020/21 across the MTFS. The 2021/22 capital programme is already indicatively forecast to be around £8m including the slippage from the Denne ward community facility, before any new schemes are considered.

Reserves and reserve strategy

3.44 The Council holds two types of reserves, earmarked reserves and general revenue reserves. Earmarked reserves are funds received for a specific purpose. For example, grant funding that can only be expended on particular purposes. Details of the earmarked reserves held by the Council at 31 March 2019 are shown in table 3 below.

Table 3: Earmarked reserves

Earmarked Reserves at 31 March 2019	£'000
Neighbourhood Planning Grant	278
S106 reserves	586
NNDR reserve	1,435
Council Tax localisation	293
Health and Wellbeing	210
Homeless prevention	88
Transformation fund	355
BBH leisure centre (NHB)	314
Revenues and Benefits	318
Other	855
Total	**4,756**

3.45 General reserves are reserves held to ensure that the Council has sufficient funds to deal with any emergency or uncertainty. The Council also uses its general fund reserves to fund capital expenditure and redundancy payments. General reserves at 31 March 2019 were £14.2m. Of this, £0.14m of the 2018/19 revenue budget surplus has subsequently been added into the earmarked transformation reserve to fund one-off up-front costs of business transformation in 2019/20.

3.46 The Council agreed in October 2012 on a minimum level of general reserves of £6m. From 2021 onwards income from central government is 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. The Council will however need to implement efficiencies and planned income schemes, together with the potential actions set out later below, to be able to balance budgets through to the end of the MTFS. Any use of reserves in this period is not sustainable and must only be a temporary measure, and / or to fund business transformation. The general fund balance is predicted to be above £6m at the end of 2023/24.

Digital Transformation

3.47 Horsham District Council is undertaking a major programme of digital transformation over the next few years. These changes will ensure customers have access to end-to-end digital services not requiring double input and giving the Council opportunities for some admin savings. At its most basic, these changes will mean a customer inputs their data and it goes straight into our computer system for processing. At the more complex end of our change, artificial intelligence will determine routine cases. Teams implementing these changes will need to carry out significant change in the way they operate.

3.48 In addition to the cost of the new systems and implementing the new systems, this requires a level of investment in capacity to backfill the 'day job' during the three years of process change in Waste and Recycling, Planning and Land Charges, Environmental Health and Licensing and Building Control. This is likely to cost around £1m which will be drawn from reserves. This builds on the work that has already started on system and process changes being made in Finance and HR, Parking, Community Link and Housing.

3.49 The efficiencies created would first replenish the reserves and then reduce revenue expenditure in the future. Cost recovery is estimated at 1.5 years beyond the investment period should 30% efficiencies be realised.

3.50 In addition, a number of new and revisited schemes for the medium term have been identified during 2019, reviewed for feasibility and will be further developed during for future budgets in the 2020s. These are being designed now to start to bring these additional savings and income ideas into practice during the next six to twelve months to avoid the need for any step-changes. At this point, a number of reasonable ideas have been identified, although the challenging part is translating the ideas into actual savings and income.

Potential actions

3.51 Having implemented the rural car-parking strategy, changes to the waste collection service, and significantly increased the property investment portfolio, much of the 'big ticket' decision making has already been incorporated into the budgets in recent years. Whilst there is a predicted surplus in 2020/21 due to actions already taken and the indication that Government's one-off settlement for that year will not drastically affect the Council, continuing action is needed to fund further transformation and help to prepare for the deficits that are currently predicted in the 2020s.

3.52 When the budget report is presented to Cabinet at the end of January 2020, it will include the anticipated savings from the digital transformation programme, other service efficiencies and income.

3.53 Small but regular inflationary increases in Council tax, garden waste and changes in the parking tariff structure would have the following effect on the deficit to the extent that the budgets would be largely balanced. As the levels of uncertainty around funding are so variable and so unknown, this position is the right balance between being too prudent or too optimistic at this stage, and will be regularly revisited.

Table 4: potential actions

November 2019	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Net (surplus) / deficit from Table 2	**(280)**	**1,200**	**2,025**	**2,350**
2% Council tax increase (cumulative)	(195)	(400)	(615)	(840)
Parking changes (cumulative)	(260)	(570)	(910)	(1,250)
Garden Waste (cumulative)	(65)	(100)	(135)	(170)
Revised net (surplus) / deficit	**(800)**	**130**	**365**	**90**

3.54 The car parking income is a collection of schemes including introducing rolling day-time tickets in Piries Place, increases the rural parking disks and season tickets, and reviewing the pricing structure for evening and weekend charges across all carparks. The list of possible actions is set out in Appendix B. The price of garden waste collection would increase by £2 in 2020/21 taking this to £41 a year, remaining good value for the customer compared to prices charged by many other authorities. Further £1 increases have been used in the assumptions for future periods.

3.55 The 2020/21 surplus would go into the transformation fund to drive further efficiencies under the digital transformation programme for the future years.

3.56 Taking this action now would help to close the budget gaps to much more manageable amounts in the future. It is also expected that as the Council gets to these years, the budgets would be firmed up with actual efficiencies and income to balance the budget. Not introducing some of the savings and income now would risk a cliff edge in 2021/22 at the point the Fair Funding Review and localisation of business rates are due to happen. In addition, implementing the savings and income ideas for a full year effect requires the preparatory work being undertaken prior to the beginning of the financial year and brings with it the key risk of slippage, as well as unachievable targets.

4 Next steps

4.1 On 23 January 2020, the 2020/21 Budget will be taken to Cabinet to recommend approval at the 12 February 2020 full Council meeting where the Council Tax for 2020/21 will be set. The MTFS will also be updated at this time to take account of our settlement, if known at that date, plus the final details of the 2020/21 Budget.

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

5.1 The proposed MTFS, assumptions and some potential actions were considered by the Finance and Assets Policy Development and Advisory Group at its meeting on 5 November 2018. The Group were generally supportive of the proposals and assumptions used.

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

6 Other courses of action considered but rejected

6.1 Not taking actions set out in this report would put at risk the ability of the Council to deliver the near balanced budgets through to 2023/24. Therefore, not taking any action has been rejected.

7 Resource consequences

7.1 The work on the digital transformation may increase headcount slightly over the next two to three years to enable the capacity to implement new systems at the same time as running the old ones. The headcount would fall back again once this has ended. The precise figure of any future reductions over the MTFS, currently estimated at around 10 posts, will be firmed up as detailed plans for the individual elements are finalised. 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.

8 Legal consequences

8.1 The Council is required under the Local Government Finance Act 1992 to produce a 'balanced budget'.

8.2 This report sets out the Council's Medium Term Financial Strategy. The Director of Corporate Resources has a statutory duty, under Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985, to ensure that there are proper arrangements in place to administer the Council's financial affairs.

8.3 The Local Government Act 1999 places a duty on the Council as a 'Best Value' authority to secure continuous improvement in the way its functions are exercised so as to secure economy, efficiency and effectiveness.

9 Risk assessment

9.1 The Council's reliance on central government funding and balancing the medium term financial plan is captured on the corporate risk register at CRR01. This is regularly reviewed and updated and is monitored at Audit Committee on a quarterly basis.

10 Other Considerations

10.1 There are no consequences of any action proposed in respect of Crime & Disorder or Human Rights. Some of the new income proposals intended to help fill the gap may have positive or negative equalities or sustainability impacts. Individual impact assessments of these will be completed alongside the business case of each proposal.

New Homes Bonus **Appendix A**

removed completely 2021/22		**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	***2021/22***	***2022/23***	***2023/24***
5 years in 2017/18	2011/12	379	379	379	379	379	379							
4 years from 2018/19	2012/13		390	390	390	390	390							
1 year from 2020/21	2013/14			397	397	397	397	397						
No new payment in 21/22	2014/15				776	776	776	776						
	2015/16					994	994	994	994					
	2016/17						1,462	1,462	1,462	1,462				
0.4% baseline	2017/18							1,186	1,186	1,186	1,186			
0.4% baseline	2018/19								1,185	1,185	1,185	*1,185*		
0.4% baseline	*2019/20*									974	974	*974*	*974*	
0.4% baseline	*2020/21*										*1,200*			
Ended	*2021/22*													
Ended	*2022/23*													
Ended	*2023/24*													
		379	769	1,166	1,942	2,936	4,398	4,815	4,827	4,807	4,545	*2,159*	*974*	*0*
Used to fund revenue		0	0	1,166	1,166	1,166	1,166	700	0	0	0	*0*	*0*	*0*
Used for BBH leisure centre		0	0	0	0	0	2,000	5,000	4,500	565	0	*0*	*0*	*0*
Neighbourhood warden seeding									30	75	45	*0*	*0*	*0*
Investment property / infrastructure										3,000	3,000	*3,000*	*3,000*	*3,000*
Added to / (drawn from) Reserves		379	769	0	776	1,770	1,232	-885	297	1,167	1,500	*-841*	*-2,026*	*-3,000*
Total Reserve figure		379	1,148	1,148	1,924	3,694	4,926	4,041	4,338	5,505	7,005	*6,164*	*4,138*	*1,138*

Parking – possible actions and changes to charging structure **Appendix B**

	2020/21	2021/22	2022/23	2023/24
Rural disks to £15 (then £2 increase every 2 yrs)	(£36k)		(£25k)	
Rural season ticket to £150, then £20 increase (every 2yrs)	(£9k)		(£9k)	
BT exchange into a commuter car park	(£40k)			
Evening charges at Swan Walk and Forum	(£17k)			
Review of evening charge by incorporating into normal fees	(£30k)			
£2 Sunday charge	(£76k)			
Piries Place rolling day tickets (note already happening)	(£50k)			
Southwater CP, Leechpool, Chesworth charges		(£50k)		
Total	**(£260k)**	**(£310k)**	**(£340k)**	**(£340k)**