Report to Cabinet

23 January 2020

By Ray Dawe (Cabinet Member for Finance and Assets)

DECISION REQUIRED

Not Exempt

Horsham District Council

The 2020/21 Budget and the Medium Term Financial Strategy to 2023/24

Executive Summary

This report sets out details of the proposed 2020/21 revenue and capital budgets following the receipt of the provisional financial settlement from Government on 20 December 2019. The net budget requirement for 2020/21 at £11.2m is £0.77m higher than in 2019/20. This is largely due to the loss of £0.87m of recycling credits received from West Sussex County Council from 1 April 2020. 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 £13.3m capital programme, while the level of council tax proposed remains in the lowest quartile nationally and is the lowest in West-Sussex.

The report also reviews the Medium Term Financial Strategy 2020-24 approved by Council in December 2019 in the light of any updated information. The outlooks remains uncertain due to limited detail available on Government's proposed significant changes to the future of business rates and the Fair Funding Review.

The current projection is for the Council to have a budget surplus in 2020/21 and near-balanced budgets over the period of the Medium Term Financial Strategy. This is despite a continued reduction in Government funding although we anticipate any effect to be dampened over the period, rather than a step change in 2021. The near-balanced budgets are dependent on delivering a programme of digital transformation.

The Council plans to continue to deliver savings through a combination of measures including digital transformation, income generation, and other efficiency measures. While the immediate programme focuses on 2020/21, ideas have been extended into 2021/22, 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 and end-to end digital services.

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 12 February 2020:

i) That the level of Council Tax for 2020/21 increases from £149.53 by £2.99 (2.0%) to £152.52 at Band D.

(ii) That the net revenue budget set out in Appendix A for 2020/21 of £11.201m is approved.

(iii) That Special Expenses of £309,500 set out in Appendix D and a Band D charge of £25.85 are agreed in respect of the unparished area for 2020/21.

(iv) That the capital programme for 2020/21 set out in Appendix E be approved and that the indicative capital budgets in the programme for future years be noted.

(v) That the projected future near-balanced budgets on the revenue account in 2021/22 to 2023/24 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 three years.

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

(vii) That the Capital Strategy and prudential indicators and limits for 2019/20 to 2022/23 set out in Appendix G are approved.

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

(ix) That the increases to fees and charges set out in Appendix J are approved.

(xi) That the Council remain in the West Sussex business rates pool for 2020/21.

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, 28 November 2019

Wards affected: All

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

Appendices:

A: Revenue Budget 2020-21
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
J: Schedule of increases in fees and charges

Background Information

1 Introduction and background

1.1 This report sets out the Council's budget requirement for 2020/21 for capital and revenue expenditure. The budget is reviewed in the context of the projected outturn for 2019/20, future years' projected budgets and reserves.

1.2 The local government finance system is complex and faces an uncertain future. In the autumn the Government postponed its reviews of Business Rates and Fair Funding to focus on Brexit and the parliamentary election. Councils are still 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. 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. The current budget estimate is for the Council to deliver a surplus in 2020/21 and near balanced budgets through to 2023/24. These remain predicted through a combination of 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 any budget surpluses it generates or from reserves.

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. 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 In September 2019, the Chancellor announced that the 2019 Spending Review had been postponed until 2020 as Government was focused on Britain's exit from the European Union. A parliamentary election took place on 12 December 2019. The outcome of this political uncertainty is a one-year 'stopgap' spending round covering 2020/21. The 2020/21 budget is produced on this basis, but the Medium Term Financial Strategy remains politically and financially uncertain.

3.2 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. 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 are revisited in the sections below.

Finance Settlement 2020/21

3.3 The provisional finance settlement for 2020/21 was announced on 20 December 2019. It increased core settlement resources including business rates baseline funding levels in line with inflation, providing a stop-gap one-year budget settlement, but no certainty on the medium term.

Revenue Budget 2019/20

3.4 Budget holders have monitored income and expenditure against the 2019/20 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 resourcing pressures on the Democratic Services team from elections, Parks and Countryside and the Capitol creating overspends in these areas, overall, the estimated forecast outturn for 2019/20 at the end of month 8 is a net expenditure surplus of £340k. Development income is significantly higher than budgeted. Officers are still taking a number of actions that may improve this positon further by year-end. Any surplus will be used to help fund the Future Horsham transformational changes in 2020/21.

4 Update on the Medium Term Financial Strategy projections

4.1 The Medium Term Financial Strategy in Table 1 has been updated for the December 2019 provisional settlement for 2020/21 and other known information. There are no significant changes.

Table 1: MTFS	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£000	**£000**	**£000**	**£000**	**£000**
Current net expenditure	10,435	11,201	12,020	11,660	11,770
Income / savings to deliver through transformation	*In budget*	*In budget*	*(565)*	*(330)*	*(280)*
Expected net expenditure after transformation	10,435	11,201	11,455	11,330	11,490
Funding: Council Tax	(9,598)	(9,922)	(10,265)	(10,620)	(10,980)
Baseline Business Rates	(2,029)	(2,052)	(1,100)	(500)	(250)
Additional Business Rates	0	0	0	(50)	(50)
Collection Fund (surplus)/deficit	(227)	(53)	-	-	-
Total Funding	**(11,854)**	**(12,027)**	**(11,365)**	**(11,170)**	**(11,280)**
Net (Surplus) / Deficit	**(1,419)***	**(826)**	**90**	**160**	**210**

*In December 2018, Government reversed its intention and eliminated negative RSG in 2019/20, meaning the Council was £0.7m better off in 2019/20, and consequently 2020/21, than anticipated.

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% increase per annum
Increase in salaries budget	2% per annum
Contribution to pension fund	0.5% reduction in 2020/21 and further 1% reduction in 2021/22 and 2022/23. Currently in surplus.
Increase in Council Tax	2% (£2.99) in 2020/21 and 2% thereafter
Local Business Rates	75% localisation of business rates triggering a significant re-baselining in 2021/22.
Increase in dwellings	Around 1,000 per year
New Homes Bonus - revenue	New Homes Bonus ends in 2020/21. Previous legacy payments end in 2022/23. Note: New Homes Bonus does not feed into revenue as tapered down to zero in 2018/19.
Minimum level of reserves	£6m

Interest rates and inflation

4.3 Britain's exit from the European Union increases the uncertainty on the rate of inflation over the next three years. The Medium Term Financial Strategy currently budgets for a 2% increase in inflation on the expectation that inflation will remain at or near current levels. The Bank of England suggested in its November 2019 Monetary Policy report that although inflation measured by the Consumer Price Index (CPI) at 1.75% is currently a little below the 2% target, they expect it to rise to a little bit above the target of 2%. Retail Price Index (RPI) though tends to be around 0.7% to 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. These helped to mitigate low interest rates by generating more income, but nevertheless, this will impact on the Council's ability to generate further levels of 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 money generated from the Community Infrastructure Levy. Expenditure on the capital programme also reduces other funds held by the Council. The Council had to borrow short term in 2017/18 and this is expected to happen again and may transition into longer-term borrowing towards the end of the medium term financial period. The positive side of the low Bank of England base rate is that the cost of borrowing is also relatively low at present, although the Treasury raised the Public Works Loan Board borrowing rate by one percentage point overnight in October 2019. The Council can borrow from other sources.

4.7 Economic forecasters are divided on the future levels of interest rates and much may hinge on the outcome of Brexit negotiations. 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%. The Bank of England's view is reserved as it includes both the scenario of growth staying weak, meaning interest rates could fall, as well as the economy developing an upward pressure on prices meaning a modest interest rate rise may be needed to keep inflation at the 2% target. The former would adversely affect the returns that the Council makes on its investments, whereas the latter would benefit the Council.

Salaries

4.8 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 Medium Term Financial Strategy above. In expenditure terms this equates to approximately £325k of additional expenditure per annum. The trade unions have asked the local authority employers for a 10% increase.

Pension Fund

4.9 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 recommends a gradual 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.

Council Tax

4.10 The December 2019 provisional settlement retained the 2020/21 referendum threshold at the higher of 2% 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. A 2% increase in Council Tax, equivalent to £2.99 is included in the 2020/21 budget. Further increases in Council Tax at 2% been have built into the Medium Term Financial Strategy projections through to 2023/24. 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, Southwater and Billingshurst. The Council anticipates that the completion of these developments together with the delivery of new homes to the north of Horsham 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. Economic uncertainty and the likelihood that a recession may very well limit these numbers over the next four years.

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.

4.14 Historical data suggests a 'flat' picture with limited material Business Rates growth envisaged over the period of the Medium Term Financial Strategy. 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 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 Rateable Value. In the longer term, some of 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.

4.15 In comparison with other authorities though, the Council is comparatively less at risk of significant business rate losses as it has relatively few single significant sites, such as an airport of power station. 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.

4.16 Since the November 2019 Medium Term Financial Strategy update, the High Court has returned judgement that NHS trusts are not charities and therefore do not qualify for mandatory business rate relief. We are working through the impact on our appeals provision for 31 March 2020. However, we aware that the NHS may appeal through the Court of Appeal. Therefore, this could still potentially affect us, although the risk has reduced somewhat.

4.17 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, although no replacement scheme has yet been put forward.

4.18 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 2019/20 the West Sussex councils ran a pilot scheme of 75% business rates retention. In this pilot scheme, the share was Government 25%, WSCC 55% and the Council 20%. It is unclear how or if this might transition into a long term model for the 2020s.

4.19 Implementation of the new system is being deferred to 2021/22 or later. Government has disbanded the 75% pilot scheme for 2020/21. West Sussex Councils have proposed to continue to operate a business rates pool in 2020/21 of the retained 50% for this year as this is financial advantageous for the county area as a whole, and does not disadvantage Horsham District. It is recommended the Council remain in the West Sussex business rates pool for 2020/21 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.

4.20 Beyond 2020/21, 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, Government has switched the increase in the Business Rates multiplier from RPI to CPI. 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 The Government has already 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 expected from 2021 onwards.

4.23 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 potentially more per annum if parking income is included in the calculations. Our projections assume we retain all our sales, fees and charges alongside Council Tax as our two main funding streams. If previous changes are a guide, there will be some transitional arrangements, which will dampen the immediate effect. Government had indicated that any period would be short in order to redistribute funding as quickly as possible, but the December 2019 election pledges suggest this may not be as sudden as originally assumed.

4.24 At this point it is difficult to calculate the effect of both the Fair Funding Review and 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 £1.1m in 2021 rather than the current £2m, with this falling close to zero by 2023/24 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 Medium Term Financial Strategy.

New Homes Bonus

4.25 The New Homes Bonus provides an incentive payment for local government to stimulate housing growth in their area. The calculation is based on Council Tax statistics submitted to Government each October. In two-tier local government areas this payment is currently split in the ratio 20% to county councils, 80% to district

councils. New Homes Bonus is currently not ring-fenced and can be spent at the Council's discretion.

4.26 The incentive has been reduced since its introduction. Initially Government reduced the payment from six years to four years, and introducing a 0.4% baseline that needs to be exceeded before any New Homes Bonus payments are made. For this Council, this means that approximately 240 band D equivalent dwellings need to be built before any grant is received.

4.27 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 believes the grant has not been successful in delivering 'additional' housing. The provisional settlement confirmed the alterations to 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 New Homes Bonus sooner rather than later.

4.28 Government announced it will consult on proposals prior to implementation, and we expect this to be included 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.

4.29 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 New Homes Bonus to zero in contrast to the £1.17m that was included in the 2016/17 revenue budget.

4.30 The ending of New Homes Bonus is modelled in **Appendix H**. It includes the one-year payment of £1.485m for 2020/21 based on the dwellings in the Council Tax Base form at October 2019 and the number of affordable homes. The New Home Bonus reserve stood at £4.3m at 31 March 2019. The reserve forecast to run down to £1.4m by 31 March 2024, after allowing for annual investment equivalent to £3m in property or infrastructure expenditure which helps the Council generate income from appropriate investments to support future service delivery and secure the delivery of infrastructure to serve the needs of the district's residents.

External financial pressures

4.32 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 has therefore withdrawn elements of discretionary funding to others as part of their 20120/21 budget setting process. The termination of all recycling credits above the statutory minimum level to encourage levels of recycling and reduce the amount of residual waste removes £870k of income to the Council for the recycling credits in 2020/21.

4.33 The Council is monitoring the impact of other WSCC decisions on their remaining discretionary funding that may affect areas such as the housing services. WSCC is working with district councils to mitigate the impact. No further significant impact on the scale of the recycling credits are envisaged in the Medium Term Financial

Strategy, but some moderate and gradual cost impacts are anticipated towards the end of the period.

4.34 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 when it is likely to implement food waste collections.

3.35 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 Medium Term Financial Strategy has been updated to include a revised estimated revenue cost of £0.5m during 2020/21. The work being undertaken by WSCC and Council officers will further refine this figure in future budgets, alongside any external funding we can secure to achieve this objective. WSCC has indicated that some one-year 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.

The Environment and Climate Change

4.37 The Council is committed to tackling climate change, and the 2019-23 Corporate Plan prioritises the protection of the environment as we move to a low carbon future. The Council undertook a carbon audit to understand its 2018/19 carbon footprint in November 2019. It identified a baseline of 18,000 tonnes of carbon per annum. A significant contributor is from contract operating services on behalf of the Council and the buildings that the Council leases which account for 78% of the total emissions. These will be the most challenging emissions to reduce as they are not always within the direct control of the Council. As part of its initial response, the Council is putting together a sinking fund for its leisure centres. An earmarked leisure environment reserve will be built up from revenue and reserves aiming at the current contract break point in the mid-2020s; when any refurbishment and carbon reduction would go together most efficiently.

4.38 This and further targeted reductions to the Council's carbon emissions will come forward as the Council explores what actions it needs to take with an action plan in early 2020. This will also need to be fully costed and further funding will need to be set aside in the future.

5 Draft Revenue Budget for 2020/21

5.1 The 2020/21 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 £11.2m. The detail of the revenue budget is shown in **Appendix A**. Due to the one-year 'same as' 2019/20 funding settlement from Government in 2020/21, the budget will generate an estimated surplus of £0.83m which should be earmarked into a transformation reserve and used to fund the further transformation required to help deliver future recurrent savings and income needed to fully balance the budget by 2023/24.

5.3 A summary of the main items of growth and savings in the 2020/21 budget is set out in **Appendix B**. Along with the £870k reduction in recycling credits, salaries remain a significant cost pressure of approximately £325k in 2020/21 relating to a 2% pay award to staff. The Council has tried to mitigate the increase by reducing posts and hours where possible, although there is an overall growth in headcount, largely due to help the delivery of digital transformation.

5.4 Other significant items of growth include more expenditure in parks and countryside, rising fuel and transport costs, the impact of competition in Horsham on the Capitol, an increased general maintenance programme, investment in better technology and a higher volume of payment processing costs. The Council has also decided to take on a second graduate under the LGA's national graduate development programme during 2020/21.

5.5 The Year of Culture was 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. The final projected overspend is forecast at £67k. To help leave a cultural legacy, the Council is investing a further £100k a year for two more years, in an operational outreach officer and a strategic officer so that it can be enjoyed by residents and visitors long after 2019.

5.6 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 2020/21, this includes raising some fees and charges, most notably in changing parking charges in urban and rural areas and also increasing the price of the garden waste collection by £2 to £41 a year for the first bin and £31 for any additional bins. These and other notable fees and charge increases are set out in Appendix J.

5.7 In total, the increase in income and efficiencies has only mitigated some of the cost pressures and the net budget at £11.201m requirement is £0.77m higher than the £10.435m from the previous year, though this is largely caused by the loss of £0.87m WSCC recycling credits.

5.8 The budget also includes £225k of grants to the voluntary groups, the largest being £93k 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 £309,500 are included in **Appendix D.** The proposed the Special Charge for 2020/21 is set at £25.85, and is sufficient to fund the proposed Special Expenses. The increase in the special charge was discussed with the Neighbourhood Councils in December 2019.

7 Council Tax for 2020/21

2019/20 £000		2020/21 £000
10,435	Net expenditure	11,201
1,419	Contribution to / (from) general reserves	826
11,854		12,027
0	Revenue support grant	0
(4,807)	New homes bonus	(4,830)
4,807	Less contribution to new homes bonus reserve	4,830
(2,029)	Business Rates retention scheme baseline	(2,052)
0	Business Rates retention scheme net additional business rates	0
9,825	Expenditure to be financed from District Council Tax	**9,975**
(299)	Less funding by Special Charge taxpayers	(309)
(227)	Less share of estimated (surplus) / deficit on Collection Fund	(53)
9,299	Expenditure to be funded from District Council Tax	9,613
62,187	Estimated band D equivalent properties	63,029
£149.53	Council Tax at band D	£152.52
£2.88	Cost per week at band D	£2.93

Table 3 – Council Tax for 2020/21.

8 Capital Budget

8.1 The Council has applied its project management methodology to projects detailed in the Capital Programme for 2020/21 and completed business cases to ensure that decisions taken by the Council represent Value for Money.

8.2 At month 8, officers are forecasting delivery of £13.6m (63%) of the £21.2m 2019/20 programme. At this stage, approximately £3.2m of unspent items will be removed as no longer required, £0.4m on two schemes deferred into 2021/22 and £4m will be re-profiled into 2020/21.

8.3 The proposed £13.3m capital programme in 2020/21, includes completion of approved schemes from preceding years such as the schemes for the Highwood community centre, Horsham Skate Park and Oakhurst phase IV development. 2020/21 also includes a £113k (30%) uplift to the previously agreed £390k Warnham Nature Reserve Discovery Hub budget, the majority of which has slipped from

2019/20, taking the total cost of the project to £0.5m. There are also eleven other new schemes totalling £1.35m of which ten, and all bar £12.5k, are unfunded. Summary details of new schemes are in **Appendix E (ii).** This includes a further £300k on two more rural car parking improvements in Henfield and Pulborough, taking the capital spend on six rural car parks to £880k in three years. As this is significantly more than the £50k a year sinking fund assumed in the original business case for introducing rural car park charges. Revenue contributions to the sinking fund have been increased in 2020/21.

8.4 The full draft capital programme for 2020/21 is in **Appendix E (i).** The new programme for 2020/21 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**. No changes have been made.

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. These also cover 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 18 December 2019. 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 2020/21 has changed slightly compared with the version tabled at the Audit Committee on 18 December 2019 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 2019/20 and 2020/21 and introduces new indicators for 2021/22.

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 2020/21 through to 2023/24 and it is anticipated that this will be funded by the surpluses in 2019/20 and 2020/21 and then from general reserves. 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 2021/22 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. Apart from funding transformation, the Council should not need to use general reserves for unexpected revenue spend 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 remain above the £6m level throughout the Medium Term Financial Strategy 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 2021/22 through to 2023/24. 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.

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 2020 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 proposed changes cannot be delivered to the size / scale envisaged
- income may be affected by external factors such as a recession. A recession did not occur in its normal timing of late in the decade so could be considered overdue.
- economic uncertainty in Europe or arising as part of the United Kingdom's exit from the European Union.

- 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 currently unknown.

11 Next steps

11.1 The Council meeting on 12 February 2020 will set the Council Tax for 2020/21.

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 13 January 2020 and the Group was supportive of the proposed strategy.

12.2 The proposed budget and Medium Term Financial Strategy will be considered at the Overview & Scrutiny Committee meeting on 20 January 2020. The Committee's views will be orally reported to Cabinet at their meeting.

12.3 The Medium Term Financial Strategy was also recently reviewed at Cabinet on 28 November 2019 and approved by Council on 11 December 2019, which has allowed all Members the opportunity to discuss and review the Medium Term Financial Strategy proposals in advance of the 2020/21 budget setting process. The Leader, Deputy and Cabinet Members were also briefed on the proposed 2020/21 budgets in December 2019.

12.4 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 2020/21 through to 2023/24. Therefore, not taking any action has been rejected.

14 Resource consequences

14.1 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 Medium Term Financial Strategy, currently estimated at around ten 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.

15 Legal consequences

15.1 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. The Council is required under the Local Government Finance Act 1992 to produce a ‘balanced budget’.

15.2 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. This report is shown in appendix I.

15.3 This report also 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.

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 this budget in respect of Crime & Disorder; Human Rights; Diversity and Sustainability.