

Report to the Cabinet

Report reference: C-011-2019/20
Date of meeting: 5th September 2019



Portfolio: Business Support
Subject: Budget, medium-term and long-term financial plan
Responsible Officer: Nick Dawe (01992 564000 Ext 2541).
Democratic Services Officer: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

- 1. To note the increased integration of the 2019/20 Budget Mid-Year Review, Budget 2020/21 and medium-term and long-term financial planning processes.**
- 2. To note the outline financial review and financial planning timetable and its timetable and its correlation with key meeting dates.**
- 3. To comment in general and to note the key issues that will underpin the 2020/21 Budget and medium-term and long-term financial plans.**
- 4. To note that although early in the process of financial planning, at this point, a combination of local performance issues, local plans and cost pressures and local tax and charging uncertainties together with the general economic climate are putting pressure on the Budget and are increasing the need for savings, service changes and increase in council tax and charges.**
- 5. To consider whether Cabinet may need to decide to have Budget and financial planning meetings and updates in November 2019 and January 2020, (in addition to the current timetable).**

1. Executive Summary

It is important the financial plans of the Authority reflect the ambitions and priorities of the Authority and the legal, economic and social environment in which it operates.

It is important that an integrated approach is taken to this financial planning and that the previously separate activities are more fully brought together. The four stages of financial planning are shown overleaf:

Mid-Year Review

To ensure the delivery of the current Budget is to plan and to carry forward any issues arising into setting the budget for 2020/21

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| Budget 2020/21 | To ensure resources are matched with priorities and a legal budget is set-matching these priorities |
| Medium-Term Financial Strategy 2021/22 - 2025/26 | To ensure that the medium-term impact of Budget decisions are fully understood, especially taxation, charging and investment decisions |
| Long-Term Financial Strategy 2026/27 – 2046/47 | To ensure that long-term impact of Budget decisions are fully understood, especially in terms of fixed asset investment and the creation and churn of investment portfolios. |

The integration of these four activities will ensure financial planning is robust and reduce the call on manager time.

Context; the one-year spending review

The new Chancellor (Sajid Javid) announced on 8 August 2019 that there will be a one-year spending review (SR) covering 2020-21, with a multi-year SR held in 2020.

The one-year SR will be announced in September 2019. No specific date has as yet been given. It replaces the three-year SR that had been planned for Summer 2019. It is possible, but by no means certain, that additional funding for local government could be announced in the Autumn Budget (usually delivered in late November).

The period covered by the next SR has not been confirmed. Spending reviews are usually between 2 to 4 years. According to the Fixed Term Parliaments Act 2011, the next general election is in May 2022, barely one year into the multi-year spending review.

The Treasury have said that the priorities in the SR will be schools, policing, the NHS, defence and Official Development Assistance (ODA). There have been no specific references from the Treasury about local government but the prime minister has indicated in various speeches that the government will seek to tackle the social care crisis.

The government's immediate focus is on the NHS: £1.8bn capital investment was announced on 5 August 2019 which is in addition to the £20.5bn increase in revenue spending that was announced last year. There are arguments about whether this is new money or not (which is something that local government will have to look out for when additional funding is announced for social care and other services).

These are some of the other priorities outlined by the prime minister in his statement to parliament on 25 July 2019:

- 20,000 additional police officers (the IFS estimates that this will cost £1.1bn).
- Increasing the minimum level of per pupil funding in primary and secondary schools and 'return education funding to previous levels by the end of this parliament'.
- 'levelling-up across every nation and region across the UK, providing support to towns and cities and closing the opportunity gap in our society'.

None of this should impact on EFDC's financial strategy, since the Council had assumed a one-year roll-over settlement for 2020-21, with any more fundamental changes in funding delayed until 2021-22.

According to CIPFA, with additional funds being available, and social care a priority, it is possible that local government as a whole might receive a real-terms increase in funding (plus increases in Council Tax income). At the outside, this could result in an average increase in core spending power of up to 4% in 2020-21 and beyond.

More recently, the Chancellor has indicated that concerns from businesses and the high street may alter the nature and financial implication of business and that the Government is considering the issue. This may result in changes and possible impacts on the financial position of this Authority, even if the business rate change nationally is compensated for by other grant changes. The key issue to note is the increased uncertainty concerning the benefit we receive from our share of the business rates.

On the 21st August the Minister for Homes, Communities and Local Government announced supplementary funding for Brexit in year totalling £9m following an earlier announcement of £20m being made available to local authorities. Most of the money from both announcements has gone to ports and Local Resilience Forums, however the Authority will benefit from a £17,484 allocation and could bid against the £5m set aside for infra-structure investments, (details of the bidding process awaited).

Context, Fair Funding Review and reform of BRRS

The absence of a technical consultation paper before the Summer Recess (25 July 2019) on either the Fair Funding Review or the proposed changes to business rates makes a delay more likely. It now seems certain that there will be an in- year delay in the FFR and the reform of business rates – from 2020-21 to 2021-22 though this has not been confirmed (and will not be until parliament reconvenes in September at the earliest).

For district councils like EFDC the decision about the future of NHB is crucial. It is more likely that this decision will be taken as part of the multi-year SR and that the NHB continues in its current form in a one-year settlement.

2. Outline Timetable

The following time-table sets out the key activities that will support financial planning and the formation of the 202/21 Budget.

| | | |
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| August | Budget, medium-term and long-term financial plan, (No1, this document) | To Cabinet 5th September |
| | <ul style="list-style-type: none"> • General financial planning assumptions. • Staff Budget 2020/21 review, restructure and Budget | |
| September | <ul style="list-style-type: none"> • Outline service priorities for future years. • Outline capital plans for future years • Outline savings and income generation proposals. • Outline investment portfolio, (including Devco issues) | To Cabinet 31st October |
| October | Budget, medium-term and long-term financial plan, (No2) | To Cabinet 31st October |

- Mid-year 2019/20 Budget review.
- Identification of cost pressures
- Non-staff 2020/21 Budget review
- Review of locally determined charges and fees.

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| November | Budget, medium-term and long-term financial plan, (No3, to include draft Budget, draft Medium-Term Financial Plan, draft Long-term Financial Plan, draft Treasury Strategy, draft Prudential Borrowing Indicators). | To Cabinet 5th December |
| | <ul style="list-style-type: none"> • Review of staff and non-staff Budget estimates. • Review of capital priorities. • Review of investment priorities and priorities. • Financing estimates. • Council Tax, Business Rates Growth and other funding estimates | |
| December | <ul style="list-style-type: none"> • Further review of staff and non-staff Budget estimates. • Further review of capital priorities. • Further review of investment priorities and priorities. • Further review of financing estimates. • Further review of Council Tax, Business Rates Growth and other funding estimates | To Cabinet 7th February |
| January | Budget, medium-term and long-term financial plan, (No4, to include final draft Budget, final draft Medium-Term Financial Plan, draft Long-term Financial Plan, final draft Treasury Strategy, final draft Prudential Borrowing Indicators). | To Cabinet 7th February |
| | <ul style="list-style-type: none"> • Final review of Administration Budget. • Possible Alternative Budgets. • Scrutiny. | |
| February | Budget, medium-term and long-term financial plan, (Final for decision). | To Council 25th February |

3. Areas for Consideration: Funding and Income

3.1 Government Funding

The Government have recently signalled that there will be a one-year Spending Review Settlement for 2020/21, due to uncertain economic considerations with a three-year Spending Review Settlement for 2021/22 – 2023/24.

The change in the Spending Review Settlement approach reflects economic uncertainties and a possible reconsideration of national political priorities.

For Epping Forest District Council, it is suggested that its financial planning reflects the following:

Support Grant. It is proposed that this continues as zero for the Budget, medium-term and long-term financial planning processes. Rate Support Grant ended in 2019/22 and predictions of zero growth in future years are included in the existing medium-term financial strategy. **No change to the financial planning assumptions is suggested at this stage.**

Council Tax Base. In the first instance figures indicate that only minor changes are required to the household number and budget base predictions. The impact and duration of the current constraints on planning approvals will require modelling in the final version of the Budget. **No change to the financial planning assumptions is suggested at this stage.**

Council Tax Increases. Currently the assumption in the medium-term financial plan is a Council Tax increase of 2.5% per annum throughout the period. Any change from this assumption will have a financial implication that will significantly grow over time, (separate modelling of the implication of changes to council tax assumptions are available on request). **No change to the financial planning assumptions is suggested at this stage.**

Retained Business Rates

Although there have been recent consultation and formal notifications of grants and resources by the Department will not be known until early December, the underlying assumption is that there will be no change in the amounts planned for. **No change to the financial planning assumptions is suggested at this stage.**

Business Rates Growth

Changes to the Business Growth system was concluded it remains unclear as to whether any changes to the system will have an effect of the Authority and its predictions. Historically the Authority, even with a levy that returns half of the benefit to the Department, has outperformed the business rates growth assumption. General economic uncertainty reduces the probability of the over performance in 2020/21 but further modelling is required. **No change to the financial planning assumptions is suggested at this stage.**

3.2 Fees and Charges

The initial assumption is that fees and charges will increase relative to inflation. There are however certain areas that are currently subject to review that may alter that picture. These are: car parking charges and local additional planning charges, e.g. for pre-application advice. **No change to the financial planning assumptions is suggested at this stage,** pending understanding the implications of the charging reviews.

3.3 Income Generation

The Authority committed to a Savings and Income Generation Programme worth £1.5m recurrently from 2019/20. Of this £1.5m, £86,000 is due to come from income generation

activities, (£63,000 Building Control, £23,000 Fleet Management). Income generation schemes for 2020/21 and following years are currently being put together which will include any additional income streams that are achieved by taking a Devco and Servco approach to building maintenance and other activities. **No change to the financial planning assumptions is suggested at this stage**, pending the completion of the new income generation list and a review of delivery of schemes in 2019/20.

4. Areas for Consideration: Costs and Cost Control

4.1 Inflation

Inflationary pressures overall, have been very limited, at low level and broadly predictable since the recession of 2008.

More recently inflation has begun to climb, especially wage inflation and this couple with economic uncertainty means that the position for 2020/21 and in the medium-term should indicate **an increase in inflation from 2.50% to 3.00 per annum for the medium-term and 2.50%** in the long-term.

The Office for National Statistics (ONS), currently recorded the annual price increase in the Consumer Price Index at 1.9% (June), and the annual price increase the Retail Price Index at 2.9% (June)

4.2 Demand Changes.

This section will mainly refer to the mid-year review, the continued pressures arising from benefit changes and the associated “export” of London Borough issues. In addition, possible economic uncertainties may also have an impact. **No change to the financial planning assumptions is suggested at this stage.**

4.3 Priorities

A review of priority developments and investments is currently being undertaken so at this moment there is no priority list to assess and review. The list is expected to be limited and associated with priorities existing now, e.g. the costs of completing the Local Development Plan (LDP) and the investment needed to start Devco and other initiatives. The LDP cost will be non-recurrent, the set-up costs of Devco can be treated as an “invest to save”. **No change to the financial planning assumptions is suggested at this stage.**

4.4 Benchmarking

With the recent transformation it is suggested that 202/21 is used as a period of both delivery and review, particularly as the Authority wants to demonstrate value as well as deliver financial flexibility through income generation and savings schemes.

The Authority needs information that it offers “best value” to its residents and requires the knowledge of the “going rate” for a service, especially if it is intended in future to trade that service, and/or partner with other organisations to deliver that service.

It is proposed therefore to more formally adopt a policy of benchmarking with **Housing Maintenance and Corporate Services being benchmarked as a priority by 31st March 2020.**

4.5 Savings Schemes

The Authority set a savings and income generation plan of £1.5m for 2019/20. Current indications are that £0.8m savings will be made. The balance of savings should be made through technical means because of removing historic and unnecessary transactions from the Accounts Payable system.

The result of the above is that in recurrent terms a deficit of £0.8m will be brought forward from 2019/20 and in the short-term (at least), the yield from savings programmes is off higher risk.

A savings programme, including (net) additional income generation should be set for 2020/21 and future years but it is suggested that this should be in the region of a £1 million with possible further additions from Devco activities, but probably not until 2022/23. **No change to the financial planning assumptions is suggested at this stage.**

5. Areas for Consideration: Capital and Investments

5.1 Operational Capital Programme

In line with the Asset Management Strategy, a clearer understanding of operational capital needs and investment opportunities will arise. The impact of the capital programme at this stage remains as originally envisaged in the medium-term financial strategy though it should be noted that because of the current Accommodation Projects and IT Review different figures are likely to result and generally, additional capital expenditure may yield additional revenue benefits. **No change to the financial planning assumptions is suggested at this stage.**

5.2 Investments

An Investment Strategy for land and property and a broader portfolio approach to holding and maximising the revenue and capital benefits from these assets is a high priority for Devco. Pending the production of this strategy, it is likely that this Authority will incur additional debt servicing costs to cover asset purchase and construction finance before asset sale proceeds and other revenue returns are made from 2022/23 onward. **No change to the financial planning assumptions is suggested at this stage**, however increased cost in the next two years and increasing benefits thereafter are likely to feature in the draft Budget.

6. Risks and Risk Mitigation

6.1 Reserves

The current policy is that the general reserves should equate to 25% of the annual expenditure and in view of inflation uncertainties that this approach should be maintained. **No change is suggested.**

It should be noted that due to economic and fiscal uncertainty, the need to invest and the need to make progress with transforming the Authority, some change to the policy may be needed before the finalisation of the Budget, that may include the setting aside of specific reserves (that are assumed to be spent), for inflation and economic uncertainty in particular.

6.2 Prudential Indicators

The Authority may need to reflect in its Prudential Indicators the changes that arise from the Asset Management Strategy and the introduction of the Devco approach. In practice the balance sheet will potential alter in terms of fixed assets, shares and potential further investment (and returns) in a wider property portfolio and the td Standard Front Sheet development of the same. **Change will be required to match existing and emerging policies.**

7. Summary Impact as at August 2019

A quick reference table of the financial impact on the previously blanked Budget and medium-term financial plan is shown below. Members should note that this is an early view of issues and as decisions are made and priorities emerge for the October Cabinet meeting and the December, draft Budget meeting, the financial challenges are likely to increase.

Financial Risks arising from current and proposed are also shown with risks above £200,000 shown as **H**, other risks shown as **M** and neutral or beneficial changes shown as **L**.

Table of net impacts to the Budget and medium-term plan of revised assumptions

| Heading | Current Assumption | Risk | 20/21 £m | 21/22 £m | 22/23 £m | 23/24 £m | 24/25 £m |
|---|---|------|-----------------|-----------------|-----------------|-----------------|-------------|
| | | | Balanced Budget | Balanced Budget | Balanced Budget | Balanced Budget | New Year |
| Previous medium term financial strategy assumption | | | | | | | |
| Income | | | | | | | |
| Council Tax Base | No change to the financial planning assumptions is suggested at this stage. | M | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Council Tax Increase | No change to the financial planning assumptions is suggested at this stage | H | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Retained Business Rates | No change to the financial planning assumptions is suggested at this stage | L | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Business Rates Growth | No change to the financial planning assumptions is suggested at this stage | M | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | | |
|---|--|---|------------|------------|------------|------------|------------|
| Fees and Charges | No change to the financial planning assumptions is suggested at this stage | L | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Income Generation | No change to the financial planning assumptions is suggested at this stage | L | 0.0 | 0.0 | 0.0 | 0.0 | .00 |
| Total Income Issues | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Costs | | | | | | | |
| Inflation | Additional 0.5% | M | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Demographic Pressures | No change to the financial planning assumptions is suggested at this stage | M | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Priority Developments | No change to the financial planning assumptions is suggested at this stage | M | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| New Debt Servicing Costs | No change to the financial planning assumptions is suggested at this stage | H | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Cost Issues | | | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Total Additional Financial Pressures | | | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Resolved By | | | | | | | |
| Income Generation Certain Schemes | | H | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cost Reductions Certain Schemes | | H | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Service Changes | | H | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Use of Reserves (Non-recurrent) | | M | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | | |
|---|--|--|------------|------------|------------|------------|------------|
| | | | | | | | |
| Total Resolutions | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | |
| Variance (as at 31st August 2019) | | | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |

8. Resource Implications:

The totality of this paper relates to the resource decisions of the Authority. There is no specific resource implication or request because of this paper.

9. Legal and Governance Implications:

The Council will have to agree an appropriate and Legal Budget for 2020/21 by the end of February 2020. This paper initiates the process of setting the 202/21 Budget and has no other legal implications.

10. Safer, Cleaner and Greener Implications:

None.

11. Consultation Undertaken:

None

12. Background Papers:

None.