

NON EXEMPT

EAST HAMPSHIRE DISTRICT COUNCIL

COUNCIL

21 February 2019

**REVENUE, CAPITAL BUDGET AND BUSINESS PLANS 2019-20 AND
MEDIUM TERM FINANCIAL STRATEGY TO 2023-24**

Lydia Morrison, Chief Financial Officer

FOR DECISION

Portfolio: Portfolio Holder for Finance Cllr Guy Shepherd

Head of Service: Lydia Morrison

Key Decision: No

1.0 Purpose of Report

- 1.1. To provide Council with the proposed 2019/20 Revenue budget, Capital budget and Business Plan, Reserves and Balances, Capital Strategy, Treasury Management Strategy and Medium Term Financial Strategy (MTFS).

2.0 Recommendation

- 2.1. The Council:
- a) Approves the proposed Revenue and Capital Budgets for 2019/20 including a Council Tax rate of £131.11 at Band D, representing a 0% increase on the current charge;
 - b) Approves the budget proposals set out in section 5.
 - c) Agrees the Capital Strategy, Treasury Management Strategy and Prudential Indicators.
 - d) Agrees the proposed fees and charges increases set out in Appendix I.

3.0 Executive Summary

- 3.1. The 2019/20 initial budget position for next year is as follows:

	Forecast £'000
Estimated Contribution (Surplus)/Deficit	10,572
Other Operating Income & Expenditure	887
Net Movement in Statutory and Usable Reserves	(361)
Net Expenditure	11,098
Council Tax, Business Rates & New Homes Bonus Income	(11,098)
(Surplus) / Deficit	-

4.0 **Additional Budgetary Implications**

4.1. None

5.0 **Background and relationship to the Corporate Strategy and Directorate Business Plan/s**

Budget Process

- 5.1. The budget process for 2019/20 used the 2018/19 base as a starting point and added 5% for pay increments and pay award. Supplies and service budgets were frozen and no increase was assumed for fees and charges, other than any statutory increases and a number of services within Environmental Services (see Appendix I), or those that had previously been agreed as part of a multi-year annual uplift.
- 5.2. Heads of Service and Managers were asked to review their budgets and identify any pressure commitments and realisable savings. As part of that process they were also required to identify net savings of 10% of their budget form either savings or increased income or other efficiency measures.
- 5.3. The Leader, Chief Finance Officer and Deputy Section 151 Officer reviewed the initial budget submissions in December followed by formal challenge sessions with each service where the 10% savings had not been achieved.
- 5.4. The outcome of these reviews has resulted in a budget surplus of £352K to be generated, after allowing for other budget pressures (pay increases) and changes in Government funding.

Budget Proposals

- 5.5. It is proposed to apply £29K of the £352K surplus to fund Council Tax Support for Care Leavers with the remaining balance of £323K to go towards the establishment of the following two new funds:

- Community Grant Fund of £1M
 - Welfare Fund of £500K
- 5.6. The balance of funds required (£1.177M) to establish the funds will come from the Corporate Responsibility Reserve (£989K) with the balance of £188K being drawn from the General Fund Reserve.
- 5.7. These proposals have been incorporated into the draft budget.

Business Plans 2019/20

- 5.8. Heads of Service and Managers were asked to review and update Business Plans for 2019/20 based on requested budgets and priorities of the Council.
- 5.9. Our focus for 2019/20 which the business plans have been built around are corporate priorities of economic growth, public service excellence, environmental sustainability, financial sustainability and creativity & innovation.

Vibrant, connected and healthy communities: Plans are focussed on ensuring that our towns are regenerated and act as a catalyst for national and international businesses in order to create job opportunities and excellent infrastructure. In particular, work in 2019/20 will be focussed on the continued successful regeneration of Whitehill & Bordon, revising our Local Plan which shapes development in the district and inspiring community responsibility. In addition, we will be creating a £1M Community Grant Fund.

Regeneration Strategy: The Council proposes to develop a Regeneration Strategy under a working title of Place-Making East Hants. It will set out the strategic case for an intelligent and bespoke approach to growth, development and place-making, taking into account the very different needs of the distinct areas within the District. It will be based on a robust evidence base including economic data and insight and will set out the issues, challenges and proposed actions.

Reducing Social Isolation and providing top-class leisure facilities: We want to support the most vulnerable in our communities and ensure all can lead healthy and active lives; this includes the continued development of our two new leisure centres in Alton and Whitehill & Bordon, and the creation of a £500K Welfare Fund.

Services which meet the needs of our communities: We want to shape our services to suit the needs of our customers including the development of a Digital Strategy and Customer Access Strategy making it easier for our customers to access our services.

Being financially sustainable: Our service business plans have been built alongside the budget with the aim of services either increasing income or generating savings in order to deliver the priorities of the Council. This includes innovative ways of delivering services, continuing to develop our Pricing Strategy and further investment in our commercial property portfolio.

Highly motivated and productive staff: Working with councillors to deliver the business plans and attract, retain and train staff to become a high performing and adaptable workforce.

- 5.10. Challenges faced in the building of business plans include the reduction in Government funding, the need to build more homes, rising demand for services, uncertainty around Brexit and extra pressure of higher tier councils which in turns puts pressure at District level. Our business plans have sought to address these challenges.
- 5.11. Outline service area business plan activities which capture the above priorities are included at Appendix J.

Medium Term Financial Projections to 2023/24

- 5.12. The Council's Medium Term Financial Strategy (MTFS) has been updated using the results of the budget process as a revised baseline. This is included at Appendix B and demonstrates the Council's ongoing ambition to not rely on government grant and annual uplifts in council tax.
- 5.13. The projections show that by 2023/24 the Council could be facing a budget deficit of £1.257M. This is mainly as a result of the reducing New Homes Bonus which is projected to be gone by 2023/24.
- 5.14. The MTFS has been produced on the basis of agreed service targets through the ongoing commercialisation of services and investment income from the Property Investment Strategy over the life of the MTFS.

Capital Summary 2018/19 and proposals received

- 5.15. The current approved Capital position is shown at Appendix C and shows spend of £43.8M against the capital programme, and a forecast spend of £80M by 2018/19 year end. The summary currently reflects the £20M drawn down from Public Works Loans Board and the property acquired and completed to date, there is one other property under offer which is expected to be completed by the end of the financial year.
- 5.16. A number of Capital bids have been received in addition to existing unapproved bids and these are attached at Appendix D for consideration. Detailed business cases will be brought to Cabinet for

approval for the unapproved capital bids, following which they will be added to the approved programme.

Revenue Reserves position

5.17. A summary of the reserves position is provided at Appendix E.

5.18. The reserves position includes the following assumptions:

- Impact from the MTFS and current year on the General Fund demonstrates that the General Fund would hold an estimated £11.634M at the end of the MTFS.
- Includes the two new proposed funds.
- Includes the impact of approved capital programmes on reserves only.

Treasury Strategy

5.19. The Council's Treasury Management Strategy is attached at Appendix G. The policy has been refreshed for 2019/20 and will apply from 1st April 2019.

Capital Strategy

5.20. The Council is now also required to produce an annual Capital Strategy, setting out amongst other things, the Council's corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver and risk appetite. The Strategy is attached at Appendix I and will apply from 1st April 2019.

6.0 Options considered and reasons for the recommendation

6.1. The 2019/20 budget and business plan has been prepared on the following basis which has guided the recommendation:

Council Tax: The budget proposals assume that the Council Tax will be frozen for 2019/20 representing £131.11 at Band D, and will remain at this level for the period of the MTFS, growth in Council Tax income will come from growth in property numbers only.

Revenue Support Grant and New Homes Bonus: Revenue Support Grant for East Hampshire ceased in 2018/19; the New Homes Bonus is included within the budget and includes an additional £420,000 above the anticipated levels in the MTFS. The New Homes Bonus Scheme is still under consultation and the key points being consulted on are outlined in the risk section below.

Retained Business Rates: Since 2013/14, the Council has been allowed to retain a proportion of Business Rates. The budget estimate for 2019/20 is based on the Council's final NDR1 return. Risk surrounding business rates estimates are detailed below.

Fees and Charges: It is a District Council function to approve the budget framework and the council tax amount annually after other billing authorities have agreed their charges and in time for annual tax billing. The February Full Council meeting formally exercises this power. The Leader or Cabinet is empowered to make changes to the District Council's fees and charges and to determine the Fees and Charges Schedule, provided the charges and the schedule are within the budget framework set annually by the Council. The Full Council notes the Fees and Charges Schedule annually. The recommendation is to apply a freeze to fees and charges during 2019/20 for those that are not otherwise constrained by statute, previously approved for two year increases or to align with our agency agreements. This has been included within the estimates. The exception to this is Environmental Services where a number of inflationary increases have been applied. Details are provided in Appendix I.

Salary budgets: As previously mentioned, the 2019/20 budget assumes an overall increase of 5% for pay award, the living wage uplift, and those who are entitled to pay increments. Pension contributions have also been increased by 1% in line with the rates provided by Hampshire Pension Fund. The MTFS includes an increase of 1% per annum for uplifts in pension contributions.

Strategic Property Investment Strategy: The Council approved in 2017/18 a Treasury Management Policy and Prudential Indicators which provided a framework for an investment strategy, funded through borrowing of up to £200M over the life of the Council's MTFS. In December 2018 £20M was drawn down from the Public Works Loans Board to fund several new investments. The market for high quality investments has slowed considerably with only one purchase being secured in December and one more in the pipeline. Assumptions within the 2019/20 budget and MTFS include the remaining £110M to be drawn down in 2019/20.

7.0 Resource Implications

- 7.1. The budgets and business plan reflect the aspirations of the organisation for 2019/20 and have been built on the basis of delivering the business plan requirements with the resources required to deliver those plans.

8.0 Legal Implications

- 8.1. It is a District Council function to approve the budget framework and the council tax amount annually. The February Full Council meeting formally exercises this power.

9.0 Risks

- 9.1. The 2019/20 Budget preparation has identified the following key corporate risks:

New Homes Bonus: In 2017/18, the government set its housing growth baseline, above which New Homes Bonus is applied, at 0.4%. This baseline has been maintained for 2019/20 but the Government has retained the option of making adjustments in future years in order to remain within the spending limits sets at the Spending Review in 2015. The technical consultation on the Government Finance Settlement has concluded and the provisional settlement remains unchanged for East Hampshire.

Business Rates: The Council experienced larger than forecast deficits on the business rates collection funds. This was largely due to a Government review of appeals provision calculation. A continuing high level of appeals would require an increase in provision, reducing the Council's retained income.

- 9.2. The 2019/20 Business Plan preparation has identified the following key corporate risks:

Brexit: The Council has identified a number of risk as a result of a potential no-deal Brexit. A no-deal or hard Brexit could have a negative impact on local government funding and result in a higher demand for services and a loss of EU funding could impact on future projects. Traffic congestion due to the potential disruption at ports and additional traffic needing to access Portsmouth International Port (2nd largest roll-on roll-off port after Dover). There are also workforce risks in particular staff being impacted by traffic congestion. The Council has a Brexit team who meet weekly to assess the risks and mitigate as far as possible and our working closely with the relevant Hampshire authorities.

Commercial contracts: A significant standing risk to the council is the risk of our contractors failing to deliver all or part of a contract, leading to non-delivery of services to our residents. There remains a robust process for monitoring our contracts including ensuring that our business continuity plans remain up to date and this will continue during 2019/20.

Staffing: Shortage of employees or appropriately skilled employees or loss of key staff remains a significant risk to the delivery of the business

plans. There remains regular and on-going investment in staff, for example through our on-going leadership development programme and availability of a corporate training programme. Going forward the council will strive to ensure that it offers staff an attractive benefits package in order to recruit and retain.

10.0 Consultation

10.1. The Budgets and Business Plans have been built in consultation with Directors, Heads of Service, budget holders and Portfolio Holders.

11.0 Communication

11.1. Subject to approval by Council, the Budgets and Business Plans will be published on the Council website.

12.0 Appendices:

- Appendix A – 2019/20 Proposed Budget
- Appendix B – MTFS projections
- Appendix C – Capital Summary
- Appendix D – Capital Bids and current unapproved projects 2019/20
- Appendix E – Reserves position
- Appendix F – CFO Statement
- Appendix G – Treasury Management Strategy
- Appendix H – Capital Strategy
- Appendix I – Schedule of current Fees and Charges
- Appendix J – Business Plans 2019/20
- Appendix K – Analysis of Business Rates Income & Expenditure

Agreed and signed off by:

Monitoring Officer: 13/02/2019

S151 Officer: 13/02/2019

Director: 13/02/2019

Portfolio Holder: 13/02/2019

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