

MEDIUM TERM FINANCIAL STRATEGY UPDATE AND BUSINESS STRATEGY 2019/20 TO 2021/22

1. Purpose of report

To present an update on issues likely to affect the Council's medium term financial strategy (MTFS), recommend participation in the Nottinghamshire business rate retention pilot bid for 2019/20 and to seek approval for an updated Business Strategy from 2019/20 to 2021/22.

2. Background

As reported to this Committee on 12 July 2018, there was an underspend of £2.159m on the General Fund revenue budget in 2017/18 resulting in a General Fund balance of £6.054m at 31 March 2018. This was predominantly due to additional income, review of MRP policy and effective financial management across the Council.

There are a number of issues concerning local government finances that will have a significant impact upon the financial position of both this Council and other local authorities. Due to the committee cycle, this report is being presented one month earlier than previously. Further details of these and how they may impact upon the General Fund revenue budget, the Housing Revenue Account and the capital programme are set out in appendix 1.

It is difficult at this stage to determine exactly how many of these issues will impact upon the Council's financial position. However, as the situation becomes clearer then further details will be provided to members at the earliest opportunity.

The MTFS is the Council's key financial planning document. An updated MTFS based upon the latest information and assumptions and incorporating external advice from LG Futures will be presented to this Committee on 13 December 2018 to provide a basis for subsequent decisions to be made by Members on the 2019/20 budget.

In order to address the financial challenge facing the Council, a Business Strategy is maintained that sets out initiatives that will be pursued to either reduce costs, generate additional income, and/or improve services. A number of these initiatives have already been implemented and were taken account of in the production of the 2018/19 budget. Further details on the role of the Business Strategy are set out in appendix 2. An updated version of the Business Strategy has been produced covering the period from 2019/20 to 2021/22 to assist with the forthcoming budget process. This is set out in appendix 3.

Recommendations

The Committee is asked to:

- 1. NOTE the issues likely to impact upon the Council's medium term financial strategy as set out in appendix 1.**
- 2. RESOLVE that the Council participates in the Nottinghamshire bid to become a business rates retention pilot in 2019/20.**
- 3. RESOLVE that the Business Strategy 2019/20 to 2021/22 as set out in appendix 3 be approved.**

Background papers Nil

1. General Fund Revenue Budget

Spending Review 2019

The Government has announced that a Spending Review is to take place in 2019. This allocates central government funding to its priority areas. The last Spending Review took place in 2015.

Additional monies have already been allocated to health and it is anticipated that any additional funds for local government will be directed to adult social care and children's services.

National Non Domestic Rates

National non domestic rates (NNDR) is more commonly referred to as "business rates". The removal of RSG and the reduction in NHB, in association with the rules limiting increases in council tax mean that business rates will become an increasingly significant funding stream for the Council. The need to develop the business rates base across the borough will become more important for the Council.

The Nottinghamshire authorities are part of a business rates pool. This allows business rates income that would otherwise have been returned to Central Government to be retained within the county and provides a safety net for authorities whose income falls below a defined level.

The current business rates retention scheme sees 50% of the business rates collected retained by the precepting bodies and 50% returned to Central Government. The Government have announced plans to move towards 75% local retention of business rates from 2020/21. A number of local authorities (including those in Derbyshire) are participating in a 75% local retention pilot exercise from 2018/19 and the Nottinghamshire pool members authorities are submitting a bid to take part in a pilot exercise from 2019/20.

LG Futures are assisting the Nottinghamshire pool members with their bid to take part in the pilot exercise. It is anticipated that, based upon previous bidding rounds, that up to 30 bids may be submitted but only around 5 may be successful. LG Futures have advised that, should the Nottinghamshire pilot bid be successful, that up to £0.4m in additional funding could come to an authority such as Broxtowe.

Fair Funding Review

The Government is undertaking a "fair funding" review to accompany the move towards 75% business rates retention. It is not possible at this stage to profile what, if any, impact this may have upon the Council. However, it would appear that priority in any redistribution exercise is likely to go to those authorities with social care responsibilities.

Revenue Support Grant

In order to aid financial planning for local authorities, in December 2015 the Secretary of State announced that 2016/17 would be the first year of a four-year funding settlement for local authorities. Councils were offered the opportunity to accept the four year settlement and the Finance and Resources Committee agreed to accept this on 19 September 2016.

This provides the Council with a clear funding path up to 31 March 2020 for Revenue Support Grant (RSG). The RSG to be received by the Council in 2018/19 is £422,789 and this will fall to zero in 2019/20.

New Homes Bonus

As reported to this committee on 15 February 2018, the Council's income from New Homes Bonus (NHB) has reduced considerably in recent years as set out below:

	£
2011/12	190,273
2012/13	402,385
2013/14	632,584
2014/15	661,309
2015/16	742,166
2016/17	828,562
2017/18	465,071
2018/19	210,348

The 2019/20 NHB allocation is scheduled to be announced as part of the Provisional Local Government Settlement 2019/20 expected in early December 2018.

2019/20 will represent the final year of funding for NHB agreed through the Spending Review 2015. The Government intend to explore incentives to encourage housing growth more effectively by, for example, using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need. The Government will consult on any changes prior to implementation.

Council Tax Base

The council tax base for 2019/20 will be presented to the Finance and Resources Committee on 8 January 2019. In recent years the council tax base has increased by approximately 1.0% over that in the previous year.

2. Housing Revenue Account (HRA)

The Chancellor's announcement in July 2015 of a 1% annual reduction in rents for four years will reduce income to the HRA by £749,000 per annum based on rents at July 2015. If the increases in rents that were allowable under the previous rent-setting regime has been applied over those four years (CPI plus 1 per cent each year), the income gap would amount to £1.728m per year after the fourth year.

The Government have announced that rents can be increased by CPI plus 1 per cent each year from 2020/21 for the following five years although the present arrangements will remain in place until that date. This will be reflected in the next annual update of the financial model that accompanies the 30 year HRA Business Plan.

In order to maintain a sufficient balance on the HRA it is necessary to reduce costs or increase income and alternative strategies have been developed, including changes in other sources of income, such as garage rents and leaseholder charges, reduction in management costs through, for example, returning to in-house provision of voids works and electrical testing, and re-phasing planned capital expenditure over the lifetime of the plan.

There is no option to borrow to increase capital spend as the self-financing system is subject to an overall 'debt cap' which the Council will reach in due course if all planned borrowing is realised. However, there are numerous variables which will affect the financial model, including the level of Right to Buy properties and new builds achieved over the next 30 years as well as changes in the level of interests rates and inflation.

The financial model makes assumptions about the levels of housing stock but these have tended to assume a level of Right to Buys in single figures. The numbers of RTB sales increased to 26 in 2014/15 and 27 in 2015/16 before falling back to 20 in 2016/17 and then increasing to 39 in 2017/18.

As stated above, the financial model which supports the 30 year HRA Business Plan will be modelled to assess the potential impact of these changes once clarity over the arrangements has been provided. An updated version of the model will be presented to the Finance and Resources Committee in February 2019.

3. Capital Programme

An update on the 2018/19 capital programme is on the agenda for this meeting. As set out in this report, the lack of capital resources in terms of receipts or grants is limiting progress with schemes totalling £978,650 in the General Fund 2018/19 capital programme that are unable to proceed at present due to the lack of a source of funds.

With the exception of the funding from the Better Care Fund for disabled facilities grants and related activities, the Council no longer receives capital grants to the extent that it once did. However, further NET compensation (in addition to the £650,000 received on 16 March 2018) is anticipated and a capital receipt should be forthcoming from the sale of Cavendish Lodge agreed by this committee on 12 July 2018.

These resources will assist with the financing of future capital expenditure.

There are also two sources of capital resources which will assist the financing of the Beeston Town Centre phase 2 re-development. A receipt from the sale of the Beeston Square site for residential development which is expected to result in a significant capital receipt, and the bid for £750,000 from the D2N2 Local Enterprise Partnership towards meeting costs associated with the development of Beeston Town Centre which is progressing well and has passed the latest stage.

Business Strategy

In 2015 the Council developed a Business Strategy which is designed to ensure that it will be:

- Lean and fit in its assets, systems and processes
- Customer focused in all its activities
- Commercially-minded and financially viable
- Making best use of technology.

A number of initiatives within the Business Strategy have been implemented and have resulted in either reduced costs or additional income, and / or improved services for the Council.

The Business Strategy is complemented by the Commercial Strategy approved by Policy and Performance Committee on 3 October 2017. This seeks to implement a more business-like approach to service analysis and delivery.

A number of initiatives within both the Business and Commercial Strategies have been implemented including the conversion of residential units within the Beeston Square development to office use intended to encourage the growth of new businesses.

The opportunity has been taken to refresh the Business Strategy for the period from 2019/20 to 2021/22 as at 1 October 2018 to allow the respective measures to be incorporated within the budget process. A number of these proposals arose from the detailed base budget review carried out earlier this year, and require further detailed development.

Also, the majority of the proposals have been listed in 2019/20, however it is likely that following further development, it will be likely that some of these proposals will not deliver financial savings or additional income until 2020/21 or 2021/22.

The Business Strategy proposals are set out in appendix 3, and will be incorporated within the Medium Term Financial Strategy in due course. Early indications show cost savings and additional income totalling £660,000. Further work will be undertaken to finalise these as the 2019/20 budget preparation process.

APPENDIX 3

Updated Business Strategy as at 1 October 2018

PROPOSAL	RESPONSIBILITY	BUSINESS IMPACT	INCOME	SAVINGS to GF	IMPACT FROM(YEAR)
2019/20					
Nottinghamshire Business rates retention pilot bid	Interim Deputy Chief Executive	Participation in the Notts business rates retention pilot bid, with 75% locally retained resulting in an additional £400,000. Half allocated to the EPC and half to Broxtowe.	£200,000 (dependent on the bid being successful)		19/20 (only)
Business rates income growth	Interim Deputy Chief Executive	Utilising a property inspector to identify additional business rates income (working in collaboration with Bassetlaw)	£100,000 (to be confirmed)		19/20
Commercial income	Interim Deputy Chief Executive	Additional income from various sources including, incubation units, rent reviews, cemetery chapel)	£20,000 (to be confirmed)		19/20
Procurement	Interim Deputy Chief Executive	Contract savings from re-procuring contracts with		£20,000 (to be confirmed)	19/20

		suppliers			
Property related savings	Interim Deputy Chief Executive	Savings in running costs from the disposal of assets		£70,000 (to be confirmed)	19/20
Single persons council tax discount	Interim Deputy Chief Executive	Use of NFI to help reduce fraud or errors	£5,000 (to be confirmed)		19/20
Savings in minimum revenue provision (MRP) arising from the Arlingclose review and re-profiling of Beeston Square Phase 2 development	Interim Deputy Chief Executive	Savings expected from the revised accounting arrangements		£135,000 (to be confirmed)	19/20
Reduction in the Liberty Leisure Management fee	Interim Deputy Chief Executive	Efficiencies and additional income		£35,000	19/20
Revenues and Benefits Shared Services review	Interim Deputy Chief Executive	The Shared Service with Erewash expires on the 31/3/19, this provides an opportunity to look review the management arrangements and improve capacity		£30,000	19/20
Planning - additional income above budget	Chief Executive	Review income budget based on current performance trends	£10,000 (to be confirmed)		19/20
Garden Waste – additional income above budget	Interim Strategic Director	Review income budget based on current performance	£10,000 (to be confirmed)		19/20

		trends			
Car parking - additional income above budget	Interim Deputy Chief Executive	Review income budget based on current performance trends	£5,000 (to be confirmed)		19/20
Security contract review	Interim Deputy Chief Executive	Review the performance of the current contract	To be confirmed		19/20
Community facilities review	Interim Deputy Chief Executive	Review the current arrangements	To be confirmed		19/20 and 20/21
Environmental Services reviews	Interim Strategic Director	Working to implement the outcomes of reviews	£10,000 (to be confirmed)		19/20 and 20/21
Review of “bring sites”	Interim Strategic Director	Review the current arrangements	To be confirmed		19/20
Review of glass recycling reschedule	Interim Strategic Director	Review the current arrangements		£5,000 (to be confirmed)	19/20
Hybrid mail	Interim Strategic Directors	Savings from using hybrid mail		£5,000 (to be confirmed)	19/20
Total savings 2019/20			£360,000 (£200,000 dependent on BRR pilot bid)	£300,000 (to be confirmed)	

PROPOSAL	RESPONSIBILITY	BUSINESS IMPACT	INCOME	SAVINGS to GF	IMPACT FROM (YEAR)
2020/21					
These budget proposals require further development to assess the level of additional income or savings achievable .					
Reduce Liberty Leisure management fee	Interim Deputy Chief Executive				20/21
Total Savings 2020/21					

PROPOSAL	RESPONSIBILITY	BUSINESS IMPACT	INCOME	SAVINGS to GF	IMPACT FROM (YEAR)
2021/22					
These budget proposals require further development to assess the level of additional income or savings achievable .					
Reduce Liberty Leisure management fee	Interim Deputy Chief Executive				21/22
Total Savings 2021/22					