

## Report of the Interim Deputy Chief Executive

**MEDIUM TERM FINANCIAL STRATEGY 2019/20 TO 2021/22**1. Purpose of report

To present an update of the Council's three-year Medium Term Financial Strategy from 2019/20 to 2021/22.

2. Background

The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document. In detailing the financial implications of the Corporate Plan over a three-year period, the MTFS provides a reference point for corporate decision-making and helps to ensure that the Council can optimise the balance between its financial resources and the delivery of its priorities.

The MTFS informs the annual budget-setting process, ensuring that each year's budget is considered within the context of the Council's on-going sustainability over the entirety of the planning period.

In order to forecast the Council's future financial position, the MTFS contains a number of assumptions. However, the bases of these assumptions are subject to regular review and change as necessary. In order to gain some further assurance around the assumptions made for business rates income projections, the Council has utilised external financial advice from LG Futures. An update of the MTFS as at 21 November 2018 is set out in appendix 3.

A further update of the MTFS, taking account of the Chancellor's budget presented on 29 October 2018 (see Appendix 1) and the local government settlement, expected on 6 December 2018, will be presented to the Finance and Resources Committee on 14 February 2019 as part of the 2019/20 Budget Proposals and Associated Strategies report.

In order to address the financial challenge facing the Council, a Business Strategy has been developed setting out initiatives that will be pursued to either reduce costs or generate additional income. A number of these initiatives are already being developed and will be taken account of in the production of the 2019/20 budget.

The latest version of the Business Strategy was presented to the Finance and Resources committee on 11 October 2018. This is undergoing a further review at present and the results of this will be presented to the Finance and Resources Committee on the 14 February 2019.

**Recommendations**

**The Committee is asked to RESOLVE that the updated Medium Term Financial Strategy in appendix 2 be approved.**

Background papers

Nil

## APPENDIX 1

**1. General Fund Revenue Budget**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 will fall to zero in 2019/20.

New Homes Bonus

As part of the budget settlement for 2017/18, New Homes Bonus (NHB) was considerably reduced through the introduction of a minimum build threshold below which no NHB would be payable. This was set at 0.4% of the council tax base. In addition, the period for which NHB was payable was also reduced from six years to five years. This was reduced again in 2018/19 to four years. The reduced income has been incorporated into the Medium Term Financial Strategy (MTFS).

A significant degree of caution needs to be exercised in relying on NHB as a main income stream due to the reliance on house building numbers and the changes in the calculation of the sum due. The projections within the MTFS allow for this risk. Broxtowe Borough Council's New Home Bonus for 2019/20 is due be announced as part of the local government settlement on 6 December 2018.

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.

Central Government has continued to fulfil its commitment to reimburse local authorities for any loss of business rates income incurred as a result of tax changes. This is through what are known as Section 31 grants.

The current business rates retention scheme sees 50% of the business rates collected retained by the precepting bodies and 50% returned to Central Government. There are proposed plans to move towards 75% local retention of business rates from 2020/21.

The Nottinghamshire local authorities have collectively submitted a bid to participate in a pilot for the introduction of 75% retention of business rates from 2019/20. This would be one year head of the proposed implementation date of 2020/21. It is anticipated that the outcome of this bid will be announced on the same date as the provisional 2019/20 Local Government Finance Settlement.

Business rates income in 2019/20 will be primarily determined by the NNDR1 2019/20 return which needs to be completed by 31 January 2019. As well as the estimated income from business ratepayers in 2019/20, account will need to be taken of the impact of bad debts and appeals.

### Spending and Fair Funding Reviews 2019

Central Government has reaffirmed its intention to undertake a “fair funding” review to accompany the move towards 75% business rates retention during 2019, and carry out a government wide Spending Review during 2019. 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.

### Council Tax Base

The council tax base for 2019/20 will be presented to the Finance and Resources Committee on 8 January 2019. Based on the latest estimates, the MTF5 assumes that the 2019/20 council tax base will be approximately 1.8% greater than in 2018/19.

## **2. Housing Revenue Account (HRA)**

The Chancellor’s announcement in July 2015 of a 1% annual reduction in rents for four years commenced from April 2016. It was recently 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.

The Chancellor’s budget on 29 October 2018 confirmed that the Housing Revenue Account cap that controls local authority borrowing for house building was to be abolished from 29 October 2018 in England. Broxtowe Borough Council has commissioned external consultants to help develop a proposed house-building plan and this was reported to the Housing Committee on 4 December 2018.

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.

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 increasing to 39 in 2017/18.

The Homelessness Reduction Act received royal assent on 27 April 2017. Whilst homelessness is a strategic housing issue and the primary implications are likely to fall on the General Fund, there may also be implications for the HRA. New burdens funding for the Council to accompany the Act totalling £58,357 from 2017/18 to 2019/20 was announced on 16 October 2017.

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 on 14 February 2019.

### **3. Capital Programme**

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

The proposed three year capital programme from 2019/20 to 2021/22 will be presented to Finance and Resources Committee on 14 February 2019 along with the anticipated funding of the programme. In addition, a Capital Strategy as required by the updated Prudential Code for Capital Finance in Local Authorities will also be represented to this committee. The Council already has a Capital Strategy 2015/16 to 2019/20 approved by Cabinet on 23 June 2015 and then by Council on 22 July 2015 but this will be revised to ensure that it fully complies with the requirements of the updated Prudential Code

### **4. Chancellor's Budget - 29 October 2018**

The Chancellor's Budget on 29 October 2018 included the following four proposals that will impact upon Broxtowe Borough Council:

#### **a. Disabled Facilities Grants 2018/19**

An additional £55m will be provided nationally in 2018/19 for Disabled Facilities Grants to provide home aids and adaptations for disabled children and adults on low incomes. It is expected that Broxtowe will receive some of these additional resources, via Nottinghamshire County Council, during 2018/19. Officers are developing proposals, including a report on this agenda, to utilise part of the Council's existing Disabled Facilities Grant allocation resources for the delivery of two new dementia friendly bungalows in Beeston.

#### **b. Business rates**

A number of changes to business rates were announced, including:

- (i) providing upfront support to the business rates system through reducing bills by one-third for retail properties with a rateable value below £51,000, benefiting up to 90% of retail properties, for 2 years from April 2019, subject to state aid limits;
- (ii) The introduction of 100% business rates relief for all public lavatories with the aim of helping keep these amenities open; and
- (iii) Continuing with the £1,500 business rates discount for office space occupied by local newspapers in 2019/20.

The Council will be fully compensated for the loss of income as a result of these business rates measures through section 31 grants.

c. Universal Credit

The following two major further reforms to Universal Credit were announced:

- (i) That the amount that households with children and people with disabilities can earn before their Universal Credit award begins to be withdrawn (the Work Allowance) will be increased by £1,000 from April 2019; and
- (ii) A package of additional support for transition worth approximately £1bn over 6 years.

d. Housing

As set out above, the Chancellor confirmed that the Housing Revenue Account cap that controls local authority borrowing for house building was to be abolished from 29 October 2018 in England.

**5. Provisional Local Government Finance Settlement 2019/20 - 6 December 2018**

The provisional Local Government Finance Settlement for 2019/20 was due to be announced on 6 December 2018. This will be the final year of the agreed four-year settlement and, as set out in 1 above, Broxtowe will not be receiving any Revenue Support Grant. There are two key financial announcements for the Council were anticipated:

1. The outcome of the Nottinghamshire local authorities bid to become a business rates retention pilot from 2019/20. If the Nottinghamshire bid is successful, it would result in approximately an additional £200,000 income for the Council in 2019/20 with another £200,000 transferred to the Economic Prosperity Committee.
2. The level of New Homes Bonus (NHB) awarded for newly built homes. The increased council tax base from 2017 to 2018 suggests that we should receive some NHB income but this will be dependent upon the allocation methodology used by Central Government.

The outcome of the provisional Local Government Finance Settlement if announced as scheduled on 6 December 2018 will be verbally reported to this meeting and included among the Budget Proposals and Associated Strategies report to Finance and Resources Committee on 14 February 2019.

## **6. 2019/20 General Fund Budget Process and Assumptions**

Good progress is being made by departments in preparing their 2019/20 General Fund budget estimates, and given the current financial environment, no new growth items for 2019/20 have been proposed at this stage.

The Council's budget consultation has closed on 30 November 2018. The survey results will be reported back to the Finance and Resources Committee on 8 January 2019.

The Council's 2019/20 General Fund budget workings are based on the following key assumptions:

- A Nil Council Tax increase in 2019/20 (this will be decided by Full Council on 6 March 2019)
- An increase in council tax base of 1.8% (this will be reported to Finance and Resources Committee on 8 January 2019)
- Allowances for the April 2019 pay award and non price inflation for 2019/20
- No additional New Homes Bonus income .This will be revisited after the announcement of the provisional Local Government Finance Settlement 2019/20 due on 6 December 2018.
- Any revenue implications (including borrowing costs) arising from the proposed capital programme
- Delivery of the Council's Business Strategy as presented to Finance and Resources Committee on 11 October 2018 which identified cost savings and additional income totalling approximately £600,000 in 2019/20.

It is very important to note at this stage that, as Central Government will be carrying out a Spending Review as well as a Fair Funding Review in 2019, budget estimates for 2020/21 and 2021/22 will be tentative and revised following the receipt of further information.

## **7. Business Strategy**

A Business Strategy has been developed which is designed to ensure that the Council 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.

The exercise generated a wide range of suggestions leading to potential savings or increased income over the lifetime of the MTFS. The latest version of the Business Strategy was presented to the Finance and Resources Committee on 11 October 2018. This is under review and a further update will be presented to the Finance and Resources Committee on 14 February 2019. Approved savings and income have been included in the MTFS model.

Progress has been made in implementing the Commercial Strategy 2017-2020 approved by the Policy and Performance Committee on 3 October 2017. This includes the new incubator units at Beeston Square and the redevelopment of Beeston Square Phase 2.

Progress on the Employee Savings Programme (including the 3% vacancy rate target built into employee budgets) is reported to the Policy and Performance Committee on a quarterly basis. A significant risk is that the staff savings targets are becoming increasingly difficult to achieve and that continued pay restraint is making it increasingly difficult to recruit some specialist skills (eg. accountants and ICT professionals) which increases the need for expenditure on agency staff. Given these concerns, the 2019/20 budget includes a 2% rather than a 3% vacancy factor.

The MTFS includes assumptions about the future distributions from Bramcote Crematorium based upon the Crematorium's own MTFS.

As set out above, a revised MTFS model has been produced based upon the latest financial estimates. More detail is set out on Appendix 2. However, this is a high level summary and will need further revision as the forecast outturn for 2018/19 and base budgets figures for 2019/20 are being produced over the next few weeks.

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
<b>Surplus/(Deficit to be funded)</b>	(1,133)	0	(979)	(1,419)
Planned (use of)/addition to reserves				
- General	(989)	90	(1,009)	(1,449)
- Earmarked	(144)	(90)	30	30
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>(979)</b>	<b>(1,419)</b>

If these projections were achieved, the Council's General Fund reserves would be £2.696m at 31 March 2022. The anticipated movements in reserves are shown in appendix 3.

## GENERAL FUND FINANCIAL PROJECTIONS TO 2021/22

	<u>2017/18</u> <u>£'000</u>	<u>2018/19</u> <u>£'000</u>	<u>2019/20</u> <u>£'000</u>	<u>2020/21</u> <u>£'000</u>	<u>2021/22</u> <u>£'000</u>
Base Expenditure	8,517	9,899	9,632	9,522	10,185
Revenue Developments	0	0	0	50	50
Revenue Effects of Cap. Prog.	0	0	0	0	0
Increase in fees and charges	0	0	(40)	(40)	(10)
Inflation Allowance - Pay	0	0	218	222	226
Inflation Allowance - Prices	0	0	132	134	137
MRP and Borrowing Costs	0	0	121	100	100
General Contingency	0	0	25	25	25
Beeston Special Expenses	25	25	25	25	25
Business Strategy Savings	0	0	(590)	0	0
<b>Gross Budget Requirement</b>	<b>8,542</b>	<b>9,924</b>	<b>9,523</b>	<b>10,038</b>	<b>10,738</b>
Financed by:					
Beeston Special Expenses Precept	25	25	25	25	25
Revenue Support Grant (RSG)	802	423	0	0	0
RSG Transitional Grant	5	0	0	0	0
Non Domestic Rates (NNDR)	3,395	0	0	0	0
Non Domestic Rates (per NNDR1)	0	11,198	11,446	11,679	11,912
Non Domestic Rates (Tariff)	0	(7,713)	(7,884)	(8,772)	(8,947)
Collection Fund Deficit (NDR)	(690)	(721)	204	200	200
NDR – Section 31 Grants	653	841	892	914	937
NDR Growth Levied - Returned	154	0	0	0	0
NDR Growth Levy to/from Pool	(500)	(719)	(741)	(763)	(786)
Collection Fund Surplus (CTax)	85	43	60	60	60
Council tax	5,362	5,414	5,521	5,716	5,918
<b>Total resources</b>	<b>9,291</b>	<b>8,791</b>	<b>9,523</b>	<b>9,059</b>	<b>9,319</b>
<b>Surplus/(Deficit) to be funded</b>	<b>749</b>	<b>(1,133)</b>	<b>0</b>	<b>(979)</b>	<b>(1,419)</b>
Planned (use of)/addition to reserves					
- General	1,307	(989)	90	(1,009)	(1,449)
- Earmarked	(558)	(144)	(90)	30	30
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Basic Council Tax (Band D)	<b>£161.85</b>	<b>£161.85</b>	<b>£161.85</b>	<b>£165.09</b>	<b>£168.39</b>
Increase/(decrease) on previous year	0.0%	0.0%	0.0%	2.0%	2.0%



## Anticipated movements in reserves

	<u>2017/18</u> <u>£'000</u>	<u>2018/19</u> <u>£'000</u>	<u>2019/20</u> <u>£'000</u>	<u>2021/21</u> <u>£'000</u>	<u>2021/22</u> <u>£'000</u>
Balances @ 1 April:					
General Fund	4,746	6,053	5,064	5,154	4,145
Land charges	137	137	0	0	0
Elections	30	60	90	0	30
Local Authority Mortgage Scheme	37	37	0	0	0
Vehicle renewals reserve	588	0	0	0	0
<b>TOTAL</b>	<b>5,538</b>	<b>6,287</b>	<b>5,154</b>	<b>5,154</b>	<b>4,175</b>
<b>Planned usage in year:</b>					
General Fund		(989)	90	(1,009)	(1,449)
Land charges		(137)			
Elections			(120)		
Local Authority Mortgage Scheme		(37)			
Vehicle renewals reserve	(588)				
<b>TOTAL</b>	<b>(588)</b>	<b>(1,163)</b>	<b>(30)</b>	<b>(1,009)</b>	<b>(1,449)</b>
<b>Planned additions in year</b>					
General Fund	1,307				
Land charges					
Elections	30	30	30	30	30
Local Authority Mortgage Scheme					
Vehicle renewals reserve					
<b>TOTAL</b>	<b>1,337</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>
<b>Net Movement in Reserves</b>	<b>749</b>	<b>(1,133)</b>	<b>0</b>	<b>(979)</b>	<b>(1,419)</b>
Balances @ 31 March:					
General Fund	6,053	5,064	5,154	4,145	2,696
Land charges	137	0	0	0	0
Elections	60	90	0	30	60
Local Authority Mortgage Scheme	37	0	0	0	0
Vehicle renewals reserve	0	0	0	0	0
<b>TOTAL</b>	<b>6,287</b>	<b>5,154</b>	<b>5,154</b>	<b>4,175</b>	<b>2,756</b>