APPENDIX 9

GENERAL FUND – MEDIUM TERM FINANCIAL STRATEGY TO 2022/23

1. Summary

This report is aligned with financial reports elsewhere on this agenda covering the Council's revenue and capital budgets, prudential framework indicators, the treasury management strategy and the investment strategy. Figures and assumptions within these other financial reports have been applied to produce this medium term financial strategy. The key changes around proposed savings have all been taken into account.

A key element of the Code of Corporate Governance is the existence of a periodically-reviewed medium term financial strategy. The proposed strategy for the next four years including the basis of any broad assumptions used to produce the medium term forecasts is set out below.

It is the opinion of the Interim Deputy Chief Executive that the estimates for 2019/20 and future years that have been used to produce the budget and Medium Term Financial Strategy (MTFS) are robust and that, if further initiatives to reduce expenditure or increase income are implemented, there are sufficient retained reserves to meet the Council's needs over the lifetime of the Strategy. Members will be aware that some savings or income proposals are still being finalised and may carry some implementation risk which could have an impact on the savings profile. It is therefore essential to maintain a rigorous approach to financial management which will enable the Council to continue to set a balanced budget over time without further depletion of reserves.

2. Revised 2018/19 position and 2019/20 assumptions

The purpose of the MTFS is to:

- provide indicative financial projections through to 2022/23 which can be used to inform the Council's decision making and budget setting process
- provide a document for use by the Council which can assist in the development of policies and planning future initiatives and which integrates with the Council's performance management system and corporate plan priorities
- enable the Council to have a wider appreciation of the overall financial standing of the authority
- provide a solid basis for the stabilisation of the Council's financial position such that it is not dependent upon using reserves to achieve a balanced budget or to restrict council tax increases to at or below government guidelines.

The strategy is based on the revised budget assumptions for 2018/19. In 2018/19 there were two areas of major potential risk to estimates which need to be taken account of in future financial years:

- Localisation of Business rates
- Efficiencies and employee savings proposals.

Localisation of business rates

The largest area of uncertainty over the past four years has been the transition to locally retained business rates. Reductions in rates caused by economic downturn or growth in successful valuation appeals (some of which go back to 2010) can increase significantly uncertainty of income. Various government initiatives to help businesses with their non-domestic rates increase this uncertainty. Furthermore, the operation of the Nottinghamshire Business Rates Pool adds a layer of complexity to the calculation of likely cash flows in each accounting period.

The original budgeted position for 2018/19 was based on business rates income of £2.786m. This has subsequently revised to £3.040m after including £0.210m returned from the Nottinghamshire Business Rates Pool in respect of 2017/18. This demonstrates the risk inherent in estimating business rates income because of (a) the time lag of 18 months between budgeted and actual income received and (b) the operation of the funding system and the business rates pool. The final outturn will be known after 31 March 2019.

The Government have announced proposals to introduce 75% business rates retention for all local authorities from 2020/21. A consultation has been launched on this as well as the Fair Funding Review intended to measure the relative needs of local authorities. Both consultations close on 21 February 2019 and further details are expected to be announced in the summer. No account of either consultation has been considered within the MTFS.

Efficiencies and employee savings proposals

Within the 2016/17 settlement the government provided indicative funding figures for the four financial years to 2019/20. This represented a considerable increase in certainty over future funding levels but also confirmed that the main source of direct Government funding – Revenue Support Grant – would cease to be paid by 2018/19.

In order to mitigate the effect of the removal of RSG, a Business Strategy was refreshed and presented to the Finance and Resources Committee on 11 October 2018 which identified a range of efficiencies and alternative sources of income.

The refresh of the Business Strategy was undertaken during the budget process, with the aim of identifying sufficient efficiencies to produce a balanced budget over the lifetime of the strategy.

It is essential for the financial health of the authority over the medium term that these efficiencies and additional income are achieved.

It is important to note that if any future proposed employee savings are developed, this will attract potential redundancy and pension strain costs, and that there will be a lead-in time period for the implementation of service reviews and associated employee savings.

3. Financial projections to 2022/23

The projections for the financial years 2018/19 through to 2022/23 are summarised at Schedule 1. In formulating the projections, a number of assumptions have been made. Those assumptions which have a material impact on the MTFS are described in more detail below.

Assumptions

As with the Council's normal budget-setting process the basic underlying assumption within the MTFS is that current levels of service will be maintained wherever possible. However, a number of budget reductions have taken place during the last year and further changes are proposed which will continue to affect services for the foreseeable future. Any proposed budget changes will be set out in the detailed budget papers to the policy committees or this Finance and Resources Committee, and have taken due regard of the Council's priorities, the overarching need for cost effectiveness and the expected further reductions in government funding in years to come.

In summary, the assumptions contained in the MTFS are that:

- Basic council tax levels will be held at the same levels in 2019/20 and thereafter will increase at a rate of 2.0% per annum
- Estimated government funding from Revenue Support Grant will reduce in line with projections provided in the 2016/17 settlement
- Estimated income from business rates will increase in line with current data about the operation of the Business Rates Pool and allowing for marginal growth in future years
- New Homes Bonus will continue to be paid, although the Government has confirmed that the amounts payable will be less than they would have been under the previous methodology, as detailed below
- Pay award is assumed at 2% from 2019/20 onwards
- The efficiency schemes set out in the Business Strategy will be realised during 2019/20.
- Further ongoing efficiencies will be realised in each subsequent year to 2022/23

New Homes Bonus

The amount to be received in 2019/20 in respect of New Homes Bonus (NHB) has been confirmed as £146,750 which represents a reduction of £63,598 on the sum of £210,348 received in 2018/19. The sum received is heavily influenced by the imposition of a threshold of 0.4% on the Council Tax base, under which amount no NHB will be paid for properties brought onto the list, except for the Affordable Homes Premium.

The current projection is based upon the level of NHB received in recent years. This may be considered a prudent assumption based upon the targets set out in the Core Strategy and the Part 2 Local Plan.

Reserves

The Council has been undertaking a planned use of reserves when setting the budget. However, when expenditure levels are finalised the actual use of reserves has often been less than anticipated.

The latest projected level of general reserves at the end of 2018/19 is £5.048m. The Chartered Institute of Public Finance and Accountancy (CIPFA) has published guidance on factors to be taken into account when assessing the adequacy of reserves. Such factors include:

- pressures arising from inflation and movements in interest rates
- estimates of the level and timing of capital receipts
- potential demand led pressures
- any planned efficiency savings/productivity gains
- financial risks arising from any major partnership arrangements
- availability of other funds to deal with major contingencies and the adequacy of provisions.

After taking into account this advice and reviewing the various factors as they relate to this authority, the advice from the Interim Deputy Chief Executive is that general reserves of at least £1.5 million should be maintained at the present time. This is to reflect the continued risk and uncertainty that the Council now faces with the transition from direct Government funding to locally raised sources of finance. If all the assumptions as set out in this strategy arise then overall reserve levels will have reduced to around £0.28m by the end of 2022/23.

GENERAL FUND FINANCIAL PROJECTIONS TO 2022/23

	REVISED ESTIMATE 2018/19 £'000	ESTIMATE 2019/20 £'000	ESTIMATE 2020/21 £'000	ESTIMATE 2021/22 £'000	ESTIMATE 2022/23 £'000
BASE EXPENDITURE	9,895	9,616	9,616	10,475	11,176
(Based already includes vacancy factor of £300k)					
Changes to the base					
*One off changes within prior year not required going forward	Reflected in the Base Budget	Reflected in the Base Budget	99	0	0
* Estimated reduction in HB Administration Grant			36	48	55
* Estimated change in New Homes Bonus			79	29	(7)
*Increased fees and charges			(40)	(40)	(10)
*Inflation allowance: Pay including pensions back-funding			279	213	217
*Inflation allowance: Prices			107	117	129
*Minimum Revenue Provision (Borrowing) and Interest			299	335	370
BUDGET REQUIREMENT BEFORE SPECIAL EXPENSES	**9,895**	**9,616**	**10,475**	**11,176**	**11,930**
Beeston Special Expenses net requirement	25	25	25	25	25
GROSS BUDGET REQUIREMENT	**9,920**	**9,641**	**10,500**	**11,201**	**11,955**
FINANCED BY:-					
Beeston Special Expenses precept (council tax)	25	25	25	25	25
Revenue Support Grant	423	0	0	0	0
Non Domestic Rates (NDR - Business Rates)	3,396	3,172	3,233	3,296	3,361
NDR - Share of Previous Years Collection Fund Deficit	(721)	(232)	0	0	0
NDR - Section 31 Grants	829	1,151	1,173	1,196	1,220
Returned Levy from Nottinghamshire Business Rates Pool 2017/18	211	0	0	0	0
Proposed Returned Levy from Nottinghamshire Business Rates Pool 2018/19	0	20	20	20	20
Growth Levy/(Safety Net to/(from) Notts NNDR Pool	(719)	(613)	(625)	(637)	(650)
Returned Levy from the Government (one-off 18/19)	44				
Council Tax	5,414	5,450	5,615	5,784	5,959
Council Tax Share of Previous Years Collection Fund Surplus	43	52	60	60	60
TOTAL RESOURCES	**8,945**	**9,025**	**9,501**	**9,744**	**9,995**

SURPLUS (DEFICIT) TO BE MET BEFORE MOVEMENT IN RESERVES	**(975)**	**(616)**	**(998)**	**(1,457)**	**(1,960)**
MOVEMENT IN RESERVES					
Planned Movement into Earmarked Reserves	30)	0	(40)	(40)	(40)
Planned Movement (from) Earmarked Reserves	0	264	0	0	0
PLANNED SURPLUS/DEFICIT AFTER MOVEMENT IN RESERVES TO BE FUNDED FROM GENERAL FUND BALANCE	**(1,005)**	**(352)**	**(1,038)**	**(1,497)**	**(2,000)**
FORECAST BALANCES AS AT 31ST MARCH					
-General Fund Opening Balance	6,053	5,048	4,696	3,658	2,160
-In-year net movement in reserves	**(1,005)**	**(352)**	**(1,038)**	**(1,497)**	**(2,000)**
- General Fund Closing Balance	5,048	4,696	3,658	**2,160**	**160**
Balance of Reserves					
Minimum Balance	1,500	1,500	1,500	1,500	1,500
Available Reserves (Figures in bold - below minimum balance	3,548	3,196	2,158	**660**	**(1,340)**

-Earmarked Reserves Opening Balance	234	264	0	40	80
-In-year net movement in reserves	30	(264)	40	40	40
- Earmarked Reserves Closing Balance	**264**	**0**	**40**	**80**	**120**
Council Tax Base	33,448.29	33,674.71	34,011.46	34,351.57	34,695.09
Basic council tax	**161.85**	**161.85**	**165.09**	**168.39**	**171.76**
% change on previous year	**0.00**	**0.00**	**2.00**	**2.00**	**2.00**

SCHEDULE 1

RISK ASSESSMENT - REVENUE BUDGET 2018/19

1. Employee Expenses

Around a quarter of the Council's gross expenditure relates to employees, including pay, national insurance and pensions. The Council operates within an approved establishment and the respective budget headings are based on this establishment. Provision has been included within the budget figures based on an expected increase of 2% in 2019/20 onwards.

Recent government announcement have indicated an intention to move to a National Living Wage by 2020. The Council has made some changes to pay scales from 2013/14, particularly to assist those employees who were on the lower grades and is now in a good position to move towards the living wage. Further work is required to ensure that the Council can meet the costs of implementing the National Living Wage in due course.

The actuarial valuation of the pension fund as at March 2016 set out fixed increases in employer's pension contribution rates for 2017/18 to 2019/20. As the fund is reasonably well funded at 87%, only marginal increases in employer's contributions of 1.2% per annum were proposed, with a lump sum contribution of £690,000; £707,000 and £724,000 over the next three years. A provision has been made in the budget plans on this basis.

Provision has been made within the base budgets for the costs associated with the approved establishment after taking account of submissions by services.

Progress towards employee savings is dependent on suitable applications for voluntary redundancy, flexible retirement and changes to working hours coming forward from employees or from posts being deleted as a result of changes to services. First year costs from redundancy payments or pension strain may limit the benefit in year one from these sources. Moreover, the extent to which establishment reductions can be accommodated without significant impact on services reduces as this strategy is continued. The General Management Team will need to regularly monitor the situation and members will also be kept regularly informed of progress through the Policy and Performance and Finance and Resources Committees.

Risk assessment reduced: MEDIUM RISK

2. Capital financing

Borrowing costs on the Council's current debt are largely known in advance since the Council's long-term borrowing is generally at fixed rates. For 2019/20 new borrowing of £3,571,500 is proposed to help finance the General Fund capital programme. The Council has sufficient reserves to enable these loans to be raised as internal borrowing, subject to cash flow funding assessments.

Alternatively, the Council will seek low cost borrowing from other sources including the Public Works Loan Board or other local authorities.

The Council's reserves position in the MTFS allows for some further borrowing in respect of the Beeston Town Centre Re-Development. However, financing of other capital schemes will be dependant upon the availability of capital receipts.

Works on the tram and the phase one refurbishment of units in The Square in Beeston are complete other than the resolution of various snagging issues. Compensation from the NET consortium/City Council arising from the tram works has still to be resolved and is likely to consist of a mixture of revenue and capital monies. No allowance has been made for any such compensation within the detailed figures, since the timing and size of any such receipts cannot be predicted. However, in monetary terms it may be significant.

Should capital receipts or tram compensation not arise the Council will need to fund its infrastructure, including the maintenance and development of ICT systems and key assets, from other sources. This may have a significant impact on the viability of the MTFS.

Risk assessment: HIGH RISK

3. Reserves

Based on the budget proposals, the overall level of available reserves at 31 March 2020 is estimated at around £4.696m. There is no historical evidence of overspending against service budgets.

Advice produced by CIPFA indicates that reserves should be held for three main purposes:

- as a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of general reserves
- as a contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves
- as a means of building up funds to meet known or predicted liabilities - referred to as earmarked reserves

Previous guidance from the former Audit Commission indicated that, as part of the comprehensive performance assessment, it would expect to see general reserves at least equal to 5% of a Council's net operating expenditure in a 'good' council. In Broxtowe this would equate to £500,000. The Interim Deputy Chief Executive advises that for district councils, which have relatively high levels of income compared to other classes of authority, the reference to net operating expenditure is not appropriate since any "target" should reflect the risk to income and expenditure levels separately. In the light of this risk assessment and the medium term financial strategy as proposed, the Interim Deputy Chief Executive advises that, in his opinion, general reserves should remain at or above £1.5 million.

This does not pose an immediate problem but this medium term financial strategy highlights the pressure that will be on reserve levels in future years as the public sector spending squeeze continues. Careful monitoring of the situation, advance planning and responding quickly to any changes will be of particular importance moving forward.

Members should also be aware that the level of reserves held also reflects on the investment interest received. Each £100,000 change in reserves has the effect of increasing or decreasing net expenditure by around £1,000 per annum.

Risk assessment: MEDIUM RISK

4. Government support

Whilst the Council's Revenue Support Grant ceased at the end of 2018/19, the award of New Homes Bonus for 2019/20 has been confirmed. However, the Government has reaffirmed that the minimum threshold for new build will continue and this can be increased in the future to reduce further the level so New Homes Bonus payable.

Whilst indicative support from non-domestic rates is shown as part of the Settlement Funding Assessment, in reality this is mainly to produce indicative positions which can then be used to monitor "spending power" as defined by the government. The first four years of the rates retention scheme has highlighted the considerable risk and vulnerability that local authorities face for reasons which are outside of their control. Increased understanding of the operation of the pool and the use of local data to monitor expected income during the year has reduced the risks relating to business rates income but this remains significant.

The lack of control and lengthy delays experienced in dealing with rates appeals by the Valuation Office remains a source of uncertainty. Whilst the authority has a list of outstanding appeals, it is not possible to come up with a meaningful estimate as to the level of rate reductions that may arise from such appeals and therefore predictions as to rates yield are also subject to significant change.

Risk assessment increased: HIGH RISK

5. Fees and Charges

Over 10% of the Council's income arises from fees and charges, of which the largest service areas are planning fees, car parking, garden waste, trade waste, licensing and land charges. Take up for garden waste collection has exceeded all expectations and continues to grow.

The establishment of Liberty Leisure in October 2016 was designed to implement a new delivery model for leisure services. The aim is to create stronger ownership of the function with an increased focus on business management. The appointment of a Commercial Manager within the Deputy

Chief Executive's Department in February 2017 strengthened this by providing a client-side focus for managing the Council's relationship with the company. Further challenges exist, however, as the leisure facilities through which leisure service operates are reaching the end-of-life stage and are placing increasing pressures on capital budgets.

Most of the other service areas are customer led and close monitoring of these budgets has taken place for several years

Some increases in fees and charges across various functions have been introduced for 2019/20 but these largely assume similar demand levels to 2018/19.

Risk assessment: MEDIUM RISK

6. Insurance

The Council's insurance cover is generally provided through external insurers with varying excess levels, depending upon the nature of any claim. The current insurance policies were retendered and new contracts entered into from April 2017 for a period of up to seven years.

The cost of premiums is only one element of the overall insurance cost with a significant part also relating to policy excesses which the Council meets itself. Budget performance in terms of the nature and value of any successful claims against the Council is also of direct relevance. The Strategic Risk Management Group meets regularly to appraise and monitor strategic issues, some of which can have direct influence on insurance cover and the levels of claims received. No adverse trends have become apparent in the past financial year.

Risk assessment: LOW RISK

7. Other running costs

Almost a quarter of the Council's gross expenditure is in this area, which includes energy, repairs and maintenance, vehicle operating costs, purchase of supplies and services, printing, postages and telephones. The cost areas are tightly controlled and where possible central contracts are put in place. Very limited inflation provision has been made in recent years.

As regards other running costs, no excessive cost pressures are known of and, given the general rules about virement, it is anticipated that running costs can be contained within overall available budgets. The continuing progress of central and joint procurement contracts, coupled with efforts to increase on-line transactions and correspondence and reduce the volume of printing and postage that takes place (as promoted through the Digital Strategy) will also help to alleviate any cost increase pressures in this area.

Risk assessment: LOW RISK

8. Housing Benefit Expenditure

Housing benefit expenditure accounts for around 40% of the Council's gross expenditure. The expenditure is demand led and the housing benefit aspects are mainly governed by national benefit schemes. The number of claimants has been reducing in recent years as the economic situation improves, although the amounts claimed have remained stable.

The 2019/20 housing benefit budgets have been prepared assuming no change to claimant numbers compared to those for 2018/19. Given that effectively the value of housing benefit payments is almost 100% reimbursed through government grant, the overall effect of any changes in caseload is felt not to be significant at this stage.

The proposed rollout of Universal Credit took place from June 2018 for Broxtowe residents who use the Heanor Job Centre and November 2018 for those who use the Beeston Job Centre. A reduction in benefits administration subsidy has been assumed in the MTFS to reflect this.

Risk assessment: LOW RISK

9. Investment income

Investment levels have remained relatively high in 2018/19 as a result of continuing good cash flow performance with collection rates being maintained. Wherever reasonable to do so investment levels have been reduced rather than taking out any new borrowing to meet capital financing requirements.

The position with regard to interest rates and the economy generally is stable at present and no movement in interest rates has been assumed in 2019/20 or future years.

Risk assessment: LOW RISK