

Report of the Deputy Chief Executive

MEDIUM TERM FINANCIAL STRATEGY 2020/21 TO 2022/23 AND BUSINESS STRATEGY UPDATE1. Purpose of report

To present an update on the Council's Medium Term Financial Strategy (MTFS) and to highlight progress with the delivery of the Business Strategy.

2. Background

As reported to this committee on 11 July 2019, there was an underspend of £430,219 on the General Fund revenue budget in 2018/19 resulting in a General Fund balance of £6,047,912 at 31 March 2019. This was predominantly due to various staffing and non-staffing underspends, additional income across departments, carry-forwards and effective financial management across the Council.

There are a number of significant issues concerning local government finances that will have a major impact upon the financial position of both this Council and other local authorities. 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.

Given that Central Government's Spending Review and Fair Funding Review has not been completed, 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 is set out in appendix 2.

In order to address the financial challenge facing the Council, a Business Strategy is maintained that sets out initiatives that will be pursued to 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 2019/20 budget. Further details of progress with the Business Strategy are set out in appendix 3. An updated version of the Business Strategy will be produced covering the period from 2020/21 to 2022/23 to assist with the forthcoming budget process and presented to the Finance and Resources Committee on 12 December 2019.

Recommendations

The Committee is asked to:

- 1. RESOLVE that the updated Medium Term Financial Strategy in Appendix 2 be approved.**
- 2. NOTE the progress with the delivery of the Business Strategy 2019/20 as set out in Appendix 3.**

Background papers

Nil

1. General Fund Revenue Budget

Spending Review 2019

The Government announced that a Spending Review would take place in 2019. This allocates central government funding to its priority areas over the medium term, eg Health, Housing, Environment, Defence, Local Government, Welfare Spending etc. The Spending Review 2019 has not been completed, and the Chancellor's recent announcement, only included spending plans for one year, 2020/21. 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 had announced plans to move towards 75% local retention of business rates from 2020/21, but this will not take place, as the Fair Funding Review has not yet been completed. It is therefore expected that the current business rates pool will continue in 2020/21.

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. The Fair Funding Review has not been completed, and the current business rates retention will continue in 2020/21.

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 provided the Council with a clear funding path up to 31 March 2020 for Revenue Support Grant (RSG), with no RSG no longer being received in 2019/20 or in future years.

New Homes Bonus

As reported to this committee on 14 February 2019, 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
2019/20	146,750

It is unclear whether future NHB allocations will be announced as part of the Provisional Local Government Settlement 2020/21 expected in early December 2019.

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 2020/21 will be presented to the Finance and Resources Committee on 9 January 2020. 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.

The previous borrowing cap has now been removed, allowing new-build housing to be funded, subject to viability and business case. 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 and 37 in 2018/19.

The Council has recently recruited an interim Housing Delivery Manager to accelerate the delivery of the approved housing delivery plan, which includes new-build, acquisitions and re-modelling of existing housing stock.

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 was presented to the Housing Committee on 11 September 2019 and was referred to the Full Council on 16 October 2019.

3. Capital Programme

An update on the 2019/20 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 £2,438,400 in the General Fund 2019/20 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 £500,000 received in 2019/20) is anticipated and a capital receipt should be forthcoming from the sale of Beeston Phase 2 residential site. The Council has received a capital receipt of £470,000 from the sale of Cavendish Lodge. 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. These are the 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.

GENERAL FUND FINANCIAL PROJECTIONS TO 2023/24

	<u>REVISED</u> <u>ESTIMATE</u> <u>2019/20</u> <u>£'000</u>	<u>ESTIMATE</u> <u>2020/21</u> <u>£'000</u>	<u>ESTIMATE</u> <u>2021/22</u> <u>£'000</u>	<u>ESTIMATE</u> <u>2022/23</u> <u>£'000</u>	<u>ESTIMATE</u> <u>2023/24</u> <u>£'000</u>
BASE EXPENDITURE (Base already includes vacancy factor of £300k)	10,245	10,245	10,544	11,009	11,596
Changes to the base *One off changes within prior year not required going forward	Reflected in the Base Budget	(468)	0	0	0
* Core Strategy Review		80	(80)		
* Estimated reduction in Council Tax Administration Subsidy Grant		6	6	6	6
* Estimated change in New Homes Bonus		79	28	(8)	8
*Increased fees and charges		(40)	(40)	(40)	(10)
*Inflation allowance: Pay including pensions back-funding		209	213	217	221
*Inflation allowance: Prices		107	117	129	141
*Minimum Revenue Provision (Borrowing) and Interest		301	221	283	(29)
BUDGET REQUIREMENT BEFORE SPECIAL EXPENSES	10,245	10,544	11,009	11,596	11,933
Beeston Special Expenses net requirement	25	25	25	25	25
GROSS BUDGET REQUIREMENT	10,270	10,569	11,034	11,621	11,958
FINANCED BY:					
Beeston Special Expenses precept (council tax)	25	25	25	25	25
Non Domestic Rates (NDR - Business Rates)	3,172	3,235	3,300	3,366	3,433
NDR - Share of Previous Years					
Collection Fund Deficit	(231)	0	0	0	0
NDR - Section 31 Grants	1,151	1,174	1,198	1,221	1,246
Returned Levy from Nottinghamshire Business Rates Pool	20	20	20	20	20
Growth Levy/(Safety Net to/(from) Notts NNDR Pool	(613)	(625)	(638)	(651)	(664)
Council Tax	5,450	5,615	5,784	5,969	6,139
Council Tax Share of Previous Years					
Collection Fund Surplus	52	50	50	50	50
TOTAL RESOURCES	9,026	9,494	9,739	10,001	10,250
SURPLUS (DEFICIT) TO BE MET BEFORE MOVEMENT IN RESERVES	(1,244)	(1,075)	(1,295)	(1,620)	(1,708)

MOVEMENT IN RESERVES					
Planned Movement into Earmarked Reserves	0	(40)	(40)	(40)	0
Planned Movement (from) Earmarked Reserves	264	0	0	0	120
PLANNED SURPLUS/DEFICIT AFTER MOVEMENT IN RESERVES TO BE FUNDED FROM GENERAL FUND BALANCE	(980)	(1,115)	(1,335)	(1,660)	(1,588)
FORECAST BALANCES AS AT 31ST MARCH					
-General Fund Opening Balance	6,048	5,068	3,953	2,618	958
-In-year net movement in reserves	(980)	(1,115)	(1,335)	(1,660)	(1,588)
- General Fund Closing Balance	5,068	3,953	2,618	958	(630)
Balance of Reserves					
Minimum Balance	1,500	1,500	1,500	1,500	1,500
Available Reserves (Figures in bold - below minimum balance)	3,568	2,453	1,118	(542)	(2,130)
-Earmarked Reserves Opening Balance	333	69	109	149	189
-In year net movement in reserve	(264)	40	40	40	(120)
Earmarked Reserves Closing Balance	69	109	149	189	69
Council Tax Base	33,674.71	34,011.46	34,351.57	34,695.09	35,042.06
Basic council tax	161.85	165.08	168.39	171.76	175.19
% change on previous year	0.00	2.00	2.00	2.00	2.00

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 latest progress with the Business Strategy proposals are set out in appendix 3, and have been incorporated within the Medium Term Financial Strategy.

The Business Strategy will be refreshed and reported to the Finance and Resources Committee on the 12 December 2019. A number of these proposals will arise from discussions with officers and may require further detailed development.

APPENDIX 3

Business Strategy 2019/20 Update as at 1 October 2019

PROPOSAL	RESPONSIBILITY	BUSINESS IMPACT	PROGRESS	£ (2019/20 estimates)
Nottinghamshire Business rates retention pilot bid	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.	The bid for 2019/20 Business Rates pilot was unsuccessful and MHCLG are not requesting bids for 2020/21.	Nil
Business rates income growth	Deputy Chief Executive	Utilising a property inspector to identify additional business rates income (working in collaboration with Bassetlaw)	Recruitment of property inspectors, jointly with Rushcliffe, Newark & Sherwood and Gedling has commenced.	£100,000
Commercial income	Deputy Chief Executive	Additional income from various sources including, incubation units, rent reviews, cemetery chapel	Continuing to maximise income from various commercial initiatives.	£20,000
Procurement	Deputy Chief Executive	Contract savings from re-procuring contracts with suppliers	Significant progress with the contracts register and tender savings, predominantly capital schemes.	£20,000
Property related savings	Deputy Chief Executive	Savings in running costs from the disposal of assets	Savings from the disposal of Cavendish Lodge.	£10,000
Single persons council tax discount	Deputy Chief Executive	Use of NFI to help reduce fraud or errors	Joint procurement led by Rushcliffe	£5,000
Savings in minimum revenue provision (MRP) arising from the Arlingclose review	Deputy Chief Executive	Savings expected from the revised accounting arrangements	Savings achieved and built into the MTFs, following move to the annuity approach.	£900,000 (one off already accounted for in 2017/18)

PROPOSAL	RESPONSIBILITY	BUSINESS IMPACT	PROGRESS	£ (2019/20 estimates)
and re-profiling of Beeston Square Phase 2 development				
Reduction in the Liberty Leisure Management fee	Deputy Chief Executive	Efficiencies and additional income	Agreed the management fee for 2019/20 of £995,000 from £1,030,000 in 2018/19.	£35,000 reduction
Revenues and Benefits Shared Services review	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	Permanent head of service in place since April 2019.	£5,000 (plus full Head of Service now based at Broxtowe)
Planning - additional income above budget	Chief Executive	Review income budget based on current performance trends	Income received to 31 July 2019 reported to Policy and Performance Committee on 2 October 2019.	Projection for 2019/20 presently in line with budget.
Garden Waste – additional income above budget	Interim Strategic Director	Review income budget based on current performance trends	Income received to 31 July 2019 reported to Policy and Performance Committee on 2 October 2019.	Projection for 2019/20 presently in line with budget.
Car parking - additional income above budget	Deputy Chief Executive	Review income budget based on current performance trends	Income received to 31 July 2019 reported to Policy and Performance Committee on 2 October 2019.	Projection for 2019/20 presently in line with budget.
Security contract review	Deputy Chief Executive	Review the performance of the current contract	Will be considered as part of the 2020/21 budget strategy.	Not yet determined (2020/21 review)
Community facilities review	Deputy Chief Executive	Review the current arrangements	Will be considered as part of the 2020/21 budget strategy.	Not yet determined (2020/21 review)
Environmental	Interim Strategic	Working to implement the	A desktop review of Green	Financial benefit to

PROPOSAL	RESPONSIBILITY	BUSINESS IMPACT	PROGRESS	£ (2019/20 estimates)
Services reviews	Director	outcomes of reviews	waste rounds, has resulted in a proposed revised round structure, which will be more efficient and provide some savings.	be determined.
Review of “bring sites”	Interim Strategic Director	Review the current arrangements	A desktop review has confirmed that the appropriate level of income continues to be achieved.	Nil
Review of glass recycling reschedule	Interim Strategic Director	Review the current arrangements	A desktop review has confirmed that the appropriate level of income continues to be achieved from the County Council.	Nil
Hybrid mail	Interim Strategic Director	Savings from using hybrid mail	Implemented for bulk mailing eg elections, council tax, housing benefits, resulting in saving some officer time. Any further rollout will be dependent on the estimated payback.	Nil (savings in officer time)