Report To:	**CABINET**	**Date:**	**19th February 2019**
Heading:	**REFRESH OF MEDIUM TERM FINANCIAL STRATEGY**		
Portfolio Holder:	**JACKIE JAMES**		
Ward/s:	**ALL**		
Key Decision:	**YES**		
Subject To Call-In:	**YES**		

Purpose Of Report

The review of the Medium Term Financial Strategy, as part of the budget setting process, enables a savings target to be established. The refresh provides an update on assumptions regarding future income and expenditure and financing forecasts for 2019/20 to 2023/24.

Recommendation(s)

That Cabinet note the continuing forecast budget 'gaps' over the next 5 financial years and agree that a minimum savings target of £500k should be set for 2019/20. A further update of the MTFS will be undertaken as soon as funding implications post 2019/20 are known.

Reasons for Recommendation(s)

In order to address the on-going gap between the Council's need to spend and its available funding, which will require net budget reductions of at least £2.65m over the next five years. In the worst case scenario dependant on government decisions around future funding this figure could climb to £4.5m over the five years.

Alternative Options Considered (With Reasons Why Not Adopted)

Different alignment of savings could be agreed. The more the Council saves in earlier years the less it will have to save overall.

Detailed Information

Financial Landscape

The year 2019/20 is the final year of the four-year financial settlement provided by the Government. The aim of providing a four-year settlement was to provide Local Government with a level of certainty regarding future resources. This has assisted future planning up to 2017/18, however as outlined in the General Fund Revenue Budget 2018/19 report the on-going changes to business rates has meant late changes to the settlement figures for 2018/19 and 2019/20.

There is no clarity over funding levels both nationally or locally after March 2020. As reported by the Local Government Association 'This hampers meaningful financial planning when government grant funding is at the lowest it has been for decades and demand pressures are increasing.'

Fair Funding Review

Funding baselines as determined by the Local Government Settlement, are based upon an assessment of local authorities' relative needs and resources. The methodology has been in place for over 10 years and the Government is seeking consultation on how this process could be re-designed called the Fair Funding Review.

The review will primarily :-

- set a new baseline funding allocation,
- deliver an up-to-date assessment of relative needs. Redistribution of business rates between local authorities will take place based upon the new assessment,
- examine the relative resources of local authorities. The Government will re-visit how Council Tax income should be taken into account when distributing business rates.

The approach will result in winners and losers. The Government has recognised that the change in formula 'could result in significant changes to the baseline funding of some authorities'. It therefore intends to introduce transitional arrangements that are 'fair, transparent and easily understood so that budgetary impacts can be accommodated'. Transitional arrangements will unwind over time.

This is important as the Council's baseline influences the amount of Business Rates it is able to retain. Some 32% of the Council's financing is from Business Rates.

Business Rates

The Government has extended the number of pilots operating 100% business rates retention across the country in 2018/19 and has now confirmed its intention to introduce 75% business rates retention in 2020/21. This does not mean that the Council and its preceptors will get to keep 75% of the £37m it collects from Business Rates. The 75% localisation refers to the level of growth (or fall) from the baseline, a baseline which as outlined above is likely to be reset.

The Government has announced that Business Rates will now increase in-line with CPI as opposed to RPI. Rates should increase at a lower rate and the Government is compensating Local Authorities for the change in approach.

As reported in previous years, there remains the outstanding issue of business rate appeals which has the impact of reducing income. The Council has a provision of £2.9m for appeals as at 31st March 2017 and adequacy of this provision is reviewed annually. The challenge by the NHS to claim charitable relief for hospitals (including those within the Council's area) is continuing with no outcome expected in the next financial year.

New Homes Bonus

Further to the Technical Financial Settlement consultation paper, the Government has decided to keep the calculation of New Homes Bonus unchanged for 2018/19. The initial consultation looked to change the methodology in order to penalise Councils who had high levels of residential planning decisions overturned at appeal.

Council Tax

The Government has allowed district local authorities to increase Band D Council Tax by up to 2.99% without triggering a referendum. The Government is also to provide the power for Local Authorities to raise the empty homes premium from 50% to 100%. The Council will be considering this once the required legislation is in place.

Review of the Medium Term Financial Strategy (MTFS)

The MTFS has been updated and assumptions made as outlined in the table below.

MTFS ASSUMPTIONS						
Description	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**Notes**
Pay costs	2%	2%	2%	2%	2%	LGA proposal for 2018/19 & 2019/20
Employers Pension Contributions (back-funding	£33k	£75k	TBC	TBC	TBC	Triennial actuary valuation for period to 2019/20. Assumes level of top-up at next valuation
Utility costs	5%	5%	5%	5%	5%	Housing – Energy Co-ordinator. Inclusive of 3% reduction in consumption. *Contract being renegotiated
Fuel Costs	5%	5%	5%	5%	5%	September CPI
ICT inflation	2.4%	2.2%	2.1%	2%	2%	September CPI
Other contracts	2.4%	2.2%	2.1%	2%	2%	September CPI
Capital Financing Costs		Latest capital programme and forecast for future re-financing costs.				
New Homes Bonus		Assumes every replacement year for NHB receive £400k				Assumes no change in methodology
Council Tax		£5 on Band D. 400 properties added to council tax base				Future council tax limits unclear
Business Rates		Forecast till 2019/20 provided by advisors thereafter assumed 2% increase.				Takes into account higher business rates according to NDR1 for 2018/19.

The revised forecast position is shown below. The opening position has improved, with a higher General Fund Balance due to savings identified in 2018/19. Despite this, there remains a projected net deficit in each of the years due to expenditure being higher than funding. Savings of circa £2.65m would result in a projected balance of £2.442m in 2023/24 which is above the Council's minimum balance of £1.35m. However, if a lower saving target is set the reserve balance is projected to drop below the minimum balance after 2023/24.

MTFS without Savings Strategy (without Government changes)

	Projection 2019/20	Projection 2020/21	Projection 2021/22	Projection 2022/23	Projection 2023/24
a. GENERAL FUND REVENUE ACCOUNT	£ 000s	£ 000s	£ 000s	£ 000s	£ 000s
Service Expenditure	12,941	12,879	12,903	12,926	12,938
Contingencies	368	743	1,128	1,523	1,928
Capital Financing Charges	1,821	1,952	1,984	2,073	2,165
Other Interest Payable and Receivable	55	55	55	55	55
Other Expenditure and Income	0	0	0	0	0
Contributions to Earmarked Reserves	119	119	119	119	119
TOTAL EXPENDITURE	15,304	15,748	16,189	16,696	17,205
Revenue Support Grant	(194)	0	0	0	0
Retained Business Rates	(5,361)	(5,499)	(5,639)	(5,790)	(5,905)
New Homes Bonus	(1,830)	(1,660)	(1,667)	(1,600)	(1,200)
Minor Grants	0	0	0	0	0
Council Tax	(6,391)	(6,641)	(6,896)	(7,121)	(7,354)
Contributions from Earmarked Reserves	(170)	0	0	0	0
TOTAL FUNDING	(13,946)	(13,800)	(14,202)	(14,511)	(14,459)
Net Deficit (Surplus) In Year	1,358	1,948	1,987	2,185	2,746
GENERAL RESERVE					
Balance brought forward 1st April	(4,116)	(2,758)	(810)	1,177	3,362
Transfer to (from) General Fund	1,358	1,948	1,987	2,185	2,746
Balance carried forward 31st March	(2,758)	(810)	1,177	3,362	6,108

Due to the uncertainty around Business Rates retention after 2019/20, two further models have been appraised.

Information from the Council’s advisors provide a worst case scenario whereby after the reset of Business Rates in 2020/21 the Council only retains business rates equal to its baseline funding. This would equate to a loss of between £1.2m and £1.4m in business rates each year from 2020/21 onwards. Savings of around £4.5m would need to achieved over the period of the MTFS, with over £1.5m savings in the earlier years.

MTFS without Savings Strategy with Business Rates Reset in 202/21)

	Projection 2019/20	Projection 2020/21	Projection 2021/22	Projection 2022/23	Projection 2023/24
a. GENERAL FUND REVENUE ACCOUNT	£ 000s	£ 000s	£ 000s	£ 000s	£ 000s
Service Expenditure	12,941	12,879	12,903	12,926	12,938
Contingencies	368	743	1,128	1,523	1,928
Capital Financing Charges	1,820	1,951	1,983	2,072	2,164
Other Interest Payable and Receivable	56	56	56	56	56
Other Expenditure and Income	0	0	0	0	0
Contributions to Earmarked Reserves	119	119	119	119	119
TOTAL EXPENDITURE	15,304	15,748	16,189	16,696	17,205
Revenue Support Grant	(194)	0	0	0	0
Retained Business Rates	(5,361)	(3,897)	(3,975)	(4,053)	(4,135)
New Homes Bonus	(1,830)	(1,660)	(1,667)	(1,600)	(1,200)
Minor Grants	0	0	0	0	0
Council Tax	(6,391)	(6,641)	(6,896)	(7,121)	(7,354)
Contributions from Earmarked Reserves	(170)	0	0	0	0

TOTAL FUNDING	(13,946)	(12,198)	(12,538)	(12,774)	(12,689)
Net Deficit (Surplus) In Year	1,358	3,550	3,651	3,922	4,516
GENERAL RESERVE					
Balance brought forward 1st April	(4,116)	(2,758)	792	4,443	8,365
Transfer to (from) General Fund	1,358	3,550	3,651	3,922	4,516
Balance carried forward 31st March	(2,758)	792	4,443	8,365	12,881

A further scenario was modelled which assumes the Council would able to retain £600k above its baseline funding level (25% of the levy). This would equate to a loss of between £600k and £800k in business rates each year from 2020/2021 onwards. Savings of around £4.3m would need to be achieved over the period of the MTFS, with £1.1m savings being required in the earlier years.

These are only indicative figures but demonstrate the impact possible changes to the Business Rates system could have upon the Council's financial standing.

In summary a £2.65m saving target is proposed at this time over the next five years. The position will be updated again as soon as information becomes available as to Ashfield's likely settlement from 2020/21 onwards.

Implications

Corporate Plan: The MTFS underpins all of the Corporate Plan priorities.

Legal: This report sets out the framework within which balanced budgets can be achieved over the next 5 years

Finance:

This report is effective from 20/19/20 to 2023/24 and has the following financial implications:

Budget Area	Implication
General Fund – Revenue Budget	The report sets out the saving targets required and provides an insight into the impact of possible government changes to Local Authority finance.

	Annual saving targets will be considered during each year's budget process.
General Fund – Capital Programme	No implications
Housing Revenue Account – Revenue Budget	No implications
Housing Revenue Account – Capital Programme	No implications

Risk:

Risk	Mitigation
Government changes to Local Authority financing are confirmed resulting in a loss (or increase) in the Council's resources.	The Council will continue to keep under review the position and update the MTFS once clarity is given.
Other assumptions are subject to change as the MTFS period progresses	Where such changes are material, the impact on the MTFS will be determined and reported timely to members.

Human Resources: No direct implications.

Equalities: *No direct implications*

Other Implications:
None

Reason(s) for Urgency (if applicable):

N/A

Exempt Report:

N/A

Background Papers

None

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