

MEDIUM TERM FINANCIAL PLAN 2018 ONWARDS

1. Purpose of Report

- 1.1 To consider the development of the Medium Term Financial Plan for 2018 onwards and to consider the factors that will influence its delivery and that of the annual budget strategy to 2022/23.

2. Background

- 2.1 The MTFP update brought to August Cabinet provided a forecast on the financial position of the Council to the year 2022/23. This updated paper now provides a more up-to-date view on that forecast.
- 2.2 In a pro-longed period whereby the Council has seen a significant reduction in government resources, the challenge for the Council's Medium Term Financial Plan is to deliver an appropriate balance of service and budget which is sustainable in the medium term.

3. Autumn Statement / Provisional Local Government Finance Settlement

- 3.1 On 29 October, the Chancellor of the Exchequer presented his autumn budget statement. The autumn budget is now the only opportunity for the Chancellor to announce changes in fiscal policy. The spring statement only contains updates of economic and fiscal forecasts.
- 3.2 This budget statement took place after the report deadline for this paper. The Portfolio Holder will verbally update Cabinet on any significant matters impacting upon this Council at the Cabinet meeting, beyond what was already anticipated as outlined below.
- 3.3 The Prime Minister made 2 key announcements in October that have a direct bearing on the Council's finances;
- the removal of the HRA borrowing cap for local authorities
 - that times of austerity are over; the provisional finance settlement and subsequent analysis will confirm to what extent the Prime Minister's statement is supported by the OBR and the government's fiscal policy for the coming years
- These statements undoubtedly would have been headline features of the Chancellors speech, had they not already been announced.
- 3.4 The recently published Hudson review, which was focused predominantly on business rates retention but also considered wider local government finance, has recommended the provisional settlement ought to be made around 5 December and the final settlement by 31 January. The Minister for Housing, Communities and Local Government has duly confirmed the date for the 2019/20 provisional settlement will be 6 December.

- 3.5 The provisional finance settlement will confirm whether the Council will suffer the consequences of negative RSG in 2019/20. Early indications suggest that the treasury will be addressing this with the potential for a favourable outcome to this Council. As a reminder, the August MTFP outlined a negative RSG of £612k (to clarify, a payment that would have to be made from this Council, to the Treasury).

4. Economic Commentary

- 4.1 UK Consumer Price Inflation (CPI) index fell to 2.4% in June, a 12-month low, as the effects of sterling's large depreciation in 2016 began to fade. However CPI ticked back up marginally to 2.5% in July, mostly due to higher energy prices, and up again to 2.7% in August from cultural services, where theatre admission prices rose by more than a year ago, and games, toys and hobbies, where prices for computer games rose this year but fell a year ago. The most recent labour market data for July 2018 showed the unemployment rate at 4%; the lowest since 1975. The three month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9%. However, real wages (i.e. adjusted for inflation) grew only by 0.4%, a marginal increase unlikely to have had much effect for households.
- 4.2 The rebound in Gross Domestic Product (GDP) growth in Quarter 2 of 2018 to 0.4% confirmed that the weakness in economic growth in Quarter 1 was temporary and largely due to weather-related factors. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking the Bank Rate to 0.75%. No further change was made to monetary policy at the Bank of England's meeting in September.

5. Business Rates

- 5.1 The Hampshire Wide Business Rate pilot bid was submitted to the Government at the end of September. The bid demonstrates this Council's willingness to work with the other authorities across Hampshire, further demonstrating the Council's intention to partner and collaborate with others where possible.
- 5.2 The success or otherwise of the bid is expected to be announced alongside the provisional finance settlement. If the bid is successful, the next Medium Term Financial Plan will confirm the financial benefit (potentially over £1.5m) and will propose ways in which the Council can best utilise the forecast additional one-off funding (which in the interim would be credited to the Council's Business Rate Equalisation Reserve).
- 5.3 The retained rates at £1m for 2018/19 shown within this Medium Term Financial plan are consistent with the figure as reported in August. The Council's Business Rate Equalisation Reserve currently contains a balance of £113k as a result of the over performance on the collection fund from 2017/18. A contribution to the reserve is also forecast in 2018/19. Any positive change from the currently allowed £1m for 2018/19 can make a contribution to the budget deficit, or a contribution to the equalisation reserve can be made for use in future years.

6. Hampshire Pension Fund

- 6.1 During 2019/20, the 3 yearly actuarial review will take place on the Hampshire Pension Fund. This review takes into account the performance of the fund and balances the level of contributions payable by the scheme members, in comparison to the forecast liabilities of the fund over the longer term.
- 6.2 As a result of the 31/03/2016 review, the Council's current employee contributions increased from 13.1% in 2016/17 to; 14.1% in 2017/18 and 15.1% in 2018/19, with increases planned to 16.1% in 2019/20 and finally 17.1% in 2020/21.
- 6.3 The fund's investments grew by 4.1% in 2017/18, with the fund valued at £6.6bn as at 31/03/2018. This annual performance, coupled with equally positive performances over the preceding 2 years means that the pattern of growth in contributions as seen over the period 2017/18 – 2020/21 are unlikely to be further increased over the next review period, or at least not to the same extent. This is positive news to the Council as the 1% annual increase in the current employee contribution rate equates to an additional cost of around £140k to the General Fund.

7. Latest Assumptions 2019/20 and to 2022/23

- 7.1 The August Cabinet report outlined a deficit position of £217,000 for 2019/20, as a result of the following summarised changes in comparison to 2018/19;

Table 1	£
Funding Reduction(inc. £612k neg RSG)	1,092,000
Pay and Price Increases	930,000
Savings/Income	-1,545,000
New Requirements / Income Reductions	100,000
Council Tax Yield (£5)	-360,000
AUGUST DEFICIT POSITION	217,000

- 7.2 The Council has taken actions since August to plan for additional income/savings of £372k and allow for new budget requirements of £264k (see Table 2), resulting in a reduced deficit position of £109k. In total, in developing the 2019/20 budget, overall income/savings of £1.872m and increased expenditure requirements of £1.264m have been identified.

Table 2

	£ Requirements	£ Income/Savings	£ TOTAL
AUGUST DEFICIT POSITION			217,000
Council Tax Base		-15,000	-15,000
HLC Operational Review		-200,000	-200,000
Ongoing Savings from 2017/18 Outturn	30,000		30,000
Pest Control Review		-45,000	-45,000
Community Grants Reduction		-42,000	-42,000
NNDR Reduction (Car Parks)		-70,000	-70,000
O365 Subscriptions	150,000		150,000
Land Charges	84,000		84,000
	264,000	-372,000	-108,000
LATEST POSITION 2019/20			109,000

Latest Position post 2019/20

- 7.3 As shown in more detail within appendix 1, the position to 2022/23, taking into account all latest funding and budget assumptions as highlighted in this report, demonstrates a deficit for 2019/20 of £109k, increasing to a cumulative deficit of £812k in 2020/21, to a cumulative £901k in 2021/22, to an ultimate cumulative deficit in 2022/23 of £1.136m.

Table 3	£'000 2019/20	£'000 2020/21	£'000 2021/22	£'000 2022/23
Cumulative Budget Deficit - August	217	871	1,095	1,350
Updates since August	-108	-59	-194	-214
Cumulative Budget Deficit - October	109	812	901	1,136

- 7.4 The Council is planning to bridge this gap predominantly through the savings targeted from the Leisure delivery review (£400k) and the generation of additional commercial and residential property income (£800k). If the timely delivery of these key workstreams is delayed, or their deliverability is put into question, the Council is able to supplement an annual budget through the use of reserves, giving the Council valuable time to develop further plans to eliminate the forecast deficit.

8. Investment in ICT

- 8.1 A report is currently being prepared to be presented to Cabinet in December updating on the Council's progress on the Protect and Maintain Fund (£1.5m). The report will

also cover the financial implications of the key aspects from the ICT strategy 2018-2022 and will outline the anticipated required level of further investment over the medium term period. The financial implications of this emerging report will be included within the next Medium Term Financial Plan.

9. Asset Maintenance and Replacement

- 9.1 The Corporate Overview and Scrutiny Panel will be presented with a report on 22 November 2018 confirming the proposed Asset Maintenance & Replacement (AMR) programme for 2019/20. The parameters for bids were set in the context of a £1.7m fund being made available (a reduction of £300k from 2018/19, albeit the 2018/19 programme included the Toilet Modernisation programme, which is now treated as part of the Capital programme).
- 9.2 In order to meet the fiscal deadlines imposed on these projects, Cabinet are recommended to give their support to the overall AMR budget now, so that subject to Corporate Overview Panel's ratification of the detailed programme within the set financial parameter, officers can commence the up-front work involved in writing up the detailed specifications and preparing tender documents, where applicable, ahead of 1 April 2019.

10. General Fund Reserves

- 10.1 The table below summarises the General Fund reserves, available to support the Council's revenue and capital budgets over the medium term period as at 31/03/2018 and shows the planned use in 2018/19;

	Balances 31/03/2018	Planned Use of Reserves 2018/19
	£'000's	£'000's
General Fund Reserve	3,000	
Capital Programme Reserve	12,409	
Capital Receipts Reserve	1,092	
Earmarked Reserves	2,686	
	19,187	-1,140

- 10.2 The use of reserves includes the support of the Capital and Asset Maintenance and Replacement programmes, and includes the variations reported throughout the year via financial monitoring and major capital receipts received during the year.

11. Housing Revenue Account

- 11.1 The annual review of the Housing Revenue Account business plan will be considered by Cabinet in February, following consultation with tenants. The business plan and detailed budget will have due regard to the emerging Housing Strategy, currently being finalised.

12. Crime and Disorder / Equality and Diversity / Environmental Implications

12.1 There are no direct implications as a result of this report.

13. Portfolio Holder Comments

13.1 In the constantly changing environment of local government finance we are making good progress in looking to deliver a prudent and balanced budget that continues to provide the high quality services that our residents are used to.

14. Recommended

14.1 That the Cabinet approve the emerging draft Medium Term Financial Plan to 2022/23 as set out within this report and that this forms the basis of the Council's 2019/20 General fund Budget that will be reported in February 2019.

14.2 That subject to Corporate Overview Panel support for the Asset Maintenance and Replacement Programme for 2019/20, the Cabinet give their approval for initial preparatory works to commence.

For Further Information Please Contact:

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Background Papers:

MTFP – August 2018

MEDIUM TERM FINANCIAL PLAN 2018-2023

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000's	£'000's	£'000's	£'000's	£'000's
FUNDING					
Government Determined Resources	5,812	4,660	4,076	4,142	4,162
Council Tax (Including Property Baseline increase)	12,126	12,201	12,261	12,321	12,381
TOTAL FUNDING	17,938	16,861	16,337	16,463	16,543
Change in Funding from Previous Year	1,077	524	-126	-80	
SPENDING PLANS					
Pay & Price Increases	930	830	690	690	
Ongoing Savings Analysis					
Ongoing Savings from 2017/18 Outturn	-720				
Health & Leisure Centre Operational Review	-500	-118			
Asset / Equipment Resources	-300				
Property (accomodation / Commercial)	-100				
Pest Control Review	-45	-52			
Community grants Panel targeted Reduction in revenue grants / SLA's	-42	-40	-40		
NNDR Reduction in Car Parks	-70	34			
Commercial Property (NMHC)	-40				
Income from Development projects	-30	-30			
Tourism Review	-25	-25			
	-1,872	-231	-40	0	
New Budget Requirements					
Planning & Open Space Resources	100				
Electoral Review of the District		15		-15	
Additional Costs associated with Office 365	150	-75	-75		
Land Charges	84				
	334	-60	-75	-15	
Change in Spending From Previous Year	-608	539	575	675	
ANNUAL BUDGET DEFICIT	469	1,063	449	595	
CUMULATIVE BUDGET DEFICIT	469	1,532	1,981	2,576	
Cumulative Council Tax Increase - Based on £5	-360	-720	-1,080	-1,440	
CUMULATIVE BUDGET DEFICIT AFTER COUNCIL TAX	109	812	901	1,136	

Work In Progress

Leisure Delivery Review		-350	-50	
Commercial / Residential Property	-50	-250	-250	-250
	-50	-600	-300	-250
Cumulative WIP	-50	-650	-950	-1,200
Estimated Cumulative Shortfall / Surplus (-) After WIP	59	162	-49	-64

Reserves Supporting the MTFP

General Fund Balance	3,000	3,000	3,000	3,000
Business Rates Equilisation Reserve	113	113	113	113