

MEDIUM TERM FINANCIAL PLAN / ANNUAL BUDGET 2019/20

1. Purpose of Report

- 1.1 To consider the development of the Medium Term Financial Plan, set the General Fund revenue and capital budgets for 2019/20 and set the level of Band D Council Tax.

2. Background

- 2.1 On 1 August 2018 and 7 November 2018 the Cabinet considered a number of issues through the established Medium Term Financial Plan reporting, that would affect the annual budget for 2019/20. The figures as included in the reports were based on latest information available at that time, before the provisional local government finance settlement had been released. **The financial assumptions in this paper are based on the provisional finance settlement as details of the final finance settlement are yet to be received.**
- 2.2 In accordance with the Council's financial strategy this report sets out the final proposals for:
- The General Fund Net Budget Requirement for 2019/20
 - A level of Council Tax for 2019/20
 - The Medium Term Financial Plan
 - The General Fund Capital Programme for 2019/20

3. Financial Strategy

- 3.1 The Council's financial strategy for 2019/20 is to:
- Review the budgets across all Services and make adjustments based on past financial performance;
 - Deliver efficiencies and savings which protect the delivery of front line services provided in the Community;
 - Support investment in services through the use of its reserves;
 - Utilise short term funding gains to address funding issues over the medium term through the transfer in and out of reserves;
 - Ensure a sufficient and appropriate level of reserves are available during the period of the Medium Term Financial Plan to safeguard frontline services; and
 - Balance the needs of service users and council taxpayers

The budget set out is in line with this strategy.

- 3.2 The Council's financial strategy over the medium term period extends to:
- The alignment of the budget to the Council's Corporate Plan and essential services;
 - Continuation of partnering and collaboration with others to transform service delivery;
 - The release of accrued short-term reserve balances to assist in the damping of the Fair Funding Review (and impact this has specifically to retained business

rates)

- The utilisation of reserve balances (and when necessary external borrowing) to invest in assets and target valuable additional income;
- A commitment towards transforming the delivery of Council Services across the organisation; and
- Ensuring strategies developed through the corporate framework appropriately feed into the Council's financial strategy

4. Medium Term Financial Plan – General Fund Budget 2019/20

4.1 Details of the provisional available resources and General Fund spending requirements were set out in the appendices to the November Cabinet report. Subsequent to that report the provisional finance settlement has been released, business rate retention forecasts updated and the full detailed budget preparation process has taken place, including the allocation of central corporate costs to the Portfolios. The updated resource summary and budget requirements are now provided as appendix 1 and 2.

4.2 The provisional settlement for 2019/20 released during December, being the last year of the 4 deal, was largely good news for the Council, as is the latest forecast on business rate retention for 2019/20;

- The issue of negative RSG, which was due to impact this Council by £612k in 2019/20 has been absorbed by central government.
- The New Homes Bonus deadweight factor has been left at 0.4% for 2019/20, and the growth in property numbers across the District results in bonus payments receivable of £183k per annum, for each of the next 4 years.
- There is a balance on the government's business rates levy account, which is to be redistributed to Councils. This will result in £60k coming back to NFDC.
- The business rates multiplier for 2019/20 will result in additional baseline income of £11k to 2019/20.
- The forecast business rates to be collected and retained by the Council above the baseline in 2019/20 total an estimated £1.6m.

4.3 Other material changes that have been made within the budgets since November include;

Adverse

- Increased pay costs to 2019/20 have exceeded the initial estimate by £73k.
- The Councils Flexible Homelessness Support Grant is due to reduce by £79k in 2019/20. Contra expenditure reductions have been identified, reducing the overall variation to £49k. The grant is also expected to reduce over the medium term period.
- The Council has made an allowance in the budget to increase the resource dealing with Private Sector Housing standards.
- To support members in the better use of available ICT, an expert will be resourced. This is anticipated to cost around £40k per annum. This resource will be part of Democratic Services and will provide ongoing support and training for Members in liaison with ICT (Nov Cabinet ICT Investment Update report)

Favourable

- Additional annual net income to the value of £300k to be retained from Health &

Leisure Centres as a result of the Council electing to implement the Sporting Services VAT exemption

- Additional savings arising from the Health & Leisure Centre operational review total £67k to 2019/20 (some expenditure to be incurred in 2018/19 and new posts costed at the top of band in the estimates to represent the worst case scenario, so short term, costs are less)
- Additional Savings to 2019/20 of £49k have arisen from the Community Grants process as a result of 2 SLA's being brought into the scope of the panel for 2019/20
- Savings are forecast as a result of a review to be undertaken in the business Improvement Service area, anticipated to save £45k per annum, commencing 1/4/19.

4.4 As a result of the Council pro-actively planning its finances on a prudent basis, the positive settlement for 2019/20, the retained business rates position and the net favourable impact of the variations as outlined above will enable the Council to finance the investment in its ICT strategy delivery directly from the General Fund in 2019/20 (£350k Yr 3 Protect and Maintain, and £600k Yr 1 ICT Strategy 2018-2022, with a total of £789k apportionable to the General Fund), and still make a contribution towards the budget equalisation reserve. The use of a budget equalisation reserve enables a transfer from this reserve over the medium term to help soften the impact of the business rates baseline reset, due to take place in 2020/21. The strong financial position in 2019/20 will also enable a balanced budget over the entire medium term period covered by this report (as demonstrated by appendix 3).

4.5 Announcements were made as part of the provisional finance settlement on the successful 75% Business Rate Retention pilots for 2019/20. In total 35 applications were received by the MHCLG and 15 selected to move forward. Unfortunately the Hampshire-wide bid was unsuccessful.

4.6 As explained further in section 8 of this report, the Community Overview and Scrutiny Panel are recommending one-off 'Construction Grant' awards totalling £61,000 for 2019/20. These awards will be covered from within the general fund for 2019/20 (not from reserves, as has been the case for the last few years).

4.7 The November report showed a deficit budget for 2019/20 of £109,000. The revisions as outlined above have resulted in a balanced budget position.

4.8 **Planned use of and contributions to Reserves**

4.8.1 Appendix 5d outlines all movements in reserves actioned in the 2019/20 General Fund revenue budget setting. In summary, in 2018/19 net transfers from reserves were made totalling £50,870. In 2019/20, transfers to reserves total £401,080. Supporting narrative to explain the new transfers is provided below;

4.8.2 The Council makes annual contributions through its revenue budget to the quadrennial election fund so the cost of holding a district election is levelled out across a 4 year term. As all out district elections are taking place in May 2019, the balance in the reserve will be released to the 2019/20 revenue budget to cover the cost of the election.

4.8.3 Since 2009/10, the Council and Priestlands School have been paying

proportionate contributions (60% / 40% respectively) into a Synthetic Turf Pitch (STP) fund to cover the annual maintenance of the STP and to accrue a balance to enable a full replacement in line with the anticipated useful life expectation. In 2019/20, the pitch will be specified and tendered for replacement utilising this fund (and any other sources of income identified, for example Hockey England).

- 4.8.4 ICT replacement budgets have been brought forward from future years to enable the transition towards 'Smarter Working' across the Council. Of the £150k budget allowed for ICT equipment in 2019/20, £90,000 is then being transferred to reserves to compensate the use of reserves in achieving the accelerated programme since 2017/18.
- 4.8.5 The works undertaken by the Council to achieve a balanced budget based on information before the positive provisional settlement was achieved put the Council's budget planning in good shape when reported in November. As outlined above, the positive impact of the 2019/20 settlement coupled with latest business rate forecasts and other updates since November, will now enable a transfer to the budget equalisation reserve.
- 4.8.6 The Council maintains a suitable level of other useable reserves, over the period covered by this MTFP.

4.9 Summary of Proposals and Council Tax for 2019/20

- 4.9.1 The General Fund net budget requirement for 2019/20 will be £17.493m (appendix 5a & 5b), an increase of £250k on the 2018/19 budget requirement.
- 4.9.2 Savings and improved income generation totalling £2.288m have been used to absorb pay and price increases across the Portfolios totalling some £1.009m and contribute towards new requirements of £1.359m. The savings identified to the budgets, and the Council's ability to invest in key service areas will make an important contribution towards ensuring the Council's financial stability over the medium term.
- 4.9.3 The proposed central support service business unit budgets have been provided at appendix 5c. Due to their nature, these costs end up across several Portfolio's and so warrant separate inclusion as part of this budget setting report.
- 4.9.4 Band D Council Tax will be £173.36, an increase of £5 (2.97%) from 2018/19 and the cost to be met by council taxpayers will be £12,321,458.

5. The Medium Term Position

- 5.1 The 2019/20 budget is the last of the 4 year settlement deal accepted by this Council (along with 97% of other Council's across the Country). There is still uncertainty over the medium term on the potential impact that the ongoing Fair Funding Review and the final design of the 75% business rate retention scheme will have on individual local authorities. Both have the ability to have a significant weighting on the availability of resources to fund Council services.

- 5.2 The Medium Term summaries set out over appendices 1, 2 and 3 provide an outlook of the future years' budgets and are set out on a prudent basis using the latest known information. The proactive forward planning undertaken by this Council enables a balanced budget to be shown for each year to 2022/23. The Council will continue to work towards the financial strategy as set out in section 3 of this report to ensure the longer term financial stability of the Council.
- 5.3 The current Medium Term Financial plan deficit will be closed (appendix 3) dependant on the;
- Council's ability to maximise its revenues through local taxation,
 - successful implementation of the commercial and residential property strategies to bring valuable new sources of additional income into the Council,
 - achievement of savings through an alternative delivery model for the Council's Health & Leisure Centres; and
 - prudent use of budget equalisation reserves.

6. Pay & Reward

- 6.1 During 2018/19, the National Trade Unions accepted a 2 year pay offer consisting of above inflation pay increases at the bottom end of the pay scale (up to 15.7% across the 2 years) and 2% per annum for other scale points for each of 2018/19 and 2019/20 (4.04% across the 2 years).
- 6.2 This Council had already taken steps, prior to the national pay offer being made, to implement enhanced pay awards to employees at the lower end of the pay scale (bands 1 – 4) covering this same period. For 2019/20, the minimum pay point that will be paid by NFDC will be in line with the NJC rate, at £9.00 per hour.
- 6.3 The restriction on pay award increases that was implemented across local government during the period 2010 – 2018 means that the Council is still suffering now in some areas of service delivery in the recruitment and retention of staff. The Councils review of the lowest paid, covering bands 1 – 4, including the consistency of increment values at over 3% (in comparison to the NJC's 2%), has been effective, but now more needs to be done on pay above band 4.
- 6.4 For a Council that employs such a diverse range of workers, it is becoming apparent that the confines of a single pay structure isn't conducive to the Council's needs in terms of recruitment and retention, particularly in certain areas where the market demands higher rates of pay than the Council's current evaluation and banding structure allows.
- 6.5 During 2019/20 a series of pay reviews will take place which will be developed further by the Council's Human Resources department, working closely with Officer Working Groups and Employee Side Representatives, including;
- the potential for individual pay structures for employees categorised across distinct groups, for example;
 - Operational
 - Housing Maintenance
 - Leisure
 - Office Based
 - a review of the Council's annual appraisal and reward system
 - a potential attendance reward system for areas which suffer from historically

- high levels of short term sickness
 - a review of the Senior Management pay structure
- 6.6 At present, an allowance is included in the MTFP for the estimated cost of 2% annual pay award over the 4 year period, and for the cost of annual increments. In line with prudent financial planning, an expectation has been added to the financial assumptions that the reviews as outlined above will increase the Council's overall pay bill (£100k allowed for in 2019/20 and a further £50k in 2020/21).

7. General Fund Capital Programme and Financing

- 7.1 The Council's proposed General Fund Capital Programme for 2019/20 totals £8.504m. The detail at project level and the proposed financing for the 2019/20 programme is detailed in appendix 6.
- 7.2 The Capital programme includes Smarter Working and the New Depot project, both initially included within the 2018/19 budget with a caveat that design and feasibility could proceed, but delivery would require further approval from Cabinet. An update is provided below;
- Smarter Working

A 'Smarter Working - the case for change' report was produced and presented to the Corporate Overview Panel and Cabinet during 2018/19. This resulted in £750k being released from the Smarter Working budget for investment in Office 365, and an initial £500k to enable the first wave of accommodation transformations during 2018/19. In order to maintain momentum and deliver the advantages as outlined in the case for change report, a further £500k for accommodation transformation is now being requested.
 - Development of Council owned land at Hardley Industrial Estate into a new Depot

Following initial feasibility works undertaken during 2018/19, the Council has now appointed design consultants. The resultant design information will be used to inform a cost estimate, which will be submitted to Cabinet for their approval before any works commence. The capital programme allows for works to commence in 2019/20 and continue into 2020/21.
- 7.3 A range of Prudential Indicators need to be approved prior to the start of each financial year. The Councils Capital Strategy, elsewhere on this agenda includes the key capital Indicators. The Treasury Management function and Investment Strategy for 2019/20 to 2021/22 were considered by the Audit Committee on 25 January 2019 and have been recommended to the Council for approval.

8. Committee and Overview Panel Comments / Recommendations

- 8.1 The Corporate Overview and Scrutiny Panel (COSP) met on 22 November 2018 and have adopted the Budget Task and Finish Group recommendations that:
- i. the Council consider automatic number plate recognition technology and consider modest regular increases in parking fees, rather than occasional step increases.
 - ii. an annual report be sent to Cabinet on the use of Community Infrastructure Levy.

- iii. efforts be made to increase the number of households using the garden collection service in view of the significant potential income generation that could result.
 - iv. the Community Affairs Portfolio Holder investigate ways and means to improve income and reduce costs within Community Alarms, CCTV and Customer Services.
 - v. consideration be given to additional support for property investment, including the option to use external expertise.
 - vi. the Council consider a modest expansion of the geographical area taken into account when looking at property investment, so long as there was still a local economic benefit applicable to the New Forest.
 - vii. consideration be given to creating a centralised accommodation strategy within the Local Economy, Property & Innovation Portfolio, which, whilst allowing each service to manage operational land or buildings, the future use and income potential could be brought together to allow a strategic view of the Council's property holdings.
 - viii. the Portfolio Holder for Local Economic Development, Property & Innovation keep a watching brief on LEPS grant funding and explore opportunities wherever possible.
 - ix. a report be submitted confirming progress on the ICT Protect and Maintain fund as well as the implications of the new ICT Strategy going forward.
 - x. a more pro-active approach be given to partnering/collaboration with other organisations.
 - xi. a re-evaluation of the current arrangements in terms of the District Council's contribution towards the Eling Experience be undertaken.
- 8.2 The Community Overview and Scrutiny Panel met on 15 January 2019 and makes the following recommendations (as per report 4 on this Cabinet agenda):
- a) Revenue grant awards totalling £131,500 be made, along with £61,000 of one-off construction grants.

9. Stillwater Park

- 9.1 Annually, the Cabinet recommends to Council the proposed Fees and Charges increase for the licence fees and service charges at Stillwater Park.
- 9.2 In line with previous years, the level of increase being proposed is in line with September RPI inflation, equivalent to 3.3%.

10. Risk Management

- 10.1 The budget for 2019/20 is based upon best estimates, but there still remains some

uncertainty, particularly surrounding the on-coming Business Rate retention scheme (in replacement of all other central funding) and the continuing uncertain economic climate (particularly surrounding Brexit). The budget statement delivered in October 2018 made several references to the era of austerity coming to an end, and suggested departmental budgets would see an annual inflationary increase in the near future, as opposed to the reductions that has been the norm since 2009. It is vitally important that the Council continues with its prudent financial planning and continues to deliver the required savings/new income over the medium term period.

- 10.2 The Council provides regular financial monitoring reports, providing valuable updates on the latest forecasts as against original expectations and has £3m in the General Fund Reserve, available to support service delivery budgets. The Council also has a Budget Equalisation Reserve, which exists to smooth out annual fluctuations in Council funding. Within this context, the budget as now presented to Cabinet is considered to be robust and deliverable.

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

- 11.1 No direct forecast implications arise as a result of the make-up of the 2019/20 budget. Over the Medium term, as the Council continually strives to provide services with less resources, any potential implications will be covered as and when key decisions are made.

12. Portfolio Holder Comments

- 12.1 I am extremely pleased to have delivered on our financial strategy and have not merely set a balanced revenue budget for 2019/20, but have set a balanced budget that enables necessary and significant investment in key service areas, such as ICT and planning. The report also confirms our plans for the future and demonstrates that our pro-active approach to financial management and willingness to adapt and change as an organisation will secure the future of the important services we deliver to our residents right through to 2023.

The improvements that have been made over the past 12 months have been significant and I fully endorse and support the continued future development and delivery of the Smarter Working programme.

- 12.2 Cabinet response to Budget Task & Finish Group recommendations;
- i. The Cabinet recently agreed to terminate the on street Parking Agency agreement with the County Council with effect from April 2020. Work will start shortly looking at how we will enforce in the most efficient way in our own off street car parks now that we will no longer have on street parking to manage. One of the options that will need to be considered is a more efficient way of administering a clock type virtual permit scheme which will rely on number plate recognition. The Environment Overview and Scrutiny panel will be presented with an update during 2019/20.
 - ii. An annual report covering the amount of contributions received, both CIL and S106 and the amount spent in the previous year (including the amount of CIL

passed to parishes) and a programme of works to be funded by contributions during the coming year will be provided to Members.

- iii. The recent National Waste Strategy which has been released by Central Government in December 2018 for consultation has identified a potential requirement for all Councils to provide Free Garden Waste Collections. Therefore until the consultation is concluded and the strategy agreed which will be in the middle of 2019 we will continue to increase our numbers. Whilst income is important it is also essential that we stick to the Waste Hierarchy and ahead of promoting Garden Waste Collections we should promote home composting, which we are currently doing.
- iv. The relocation of Community Alarms, CTV and Customer services to one location, will give opportunities to reduce cost through new ways of working. The Customer Services Task and Finish Group are now progressing the replacement of the Councils website, which will reduce cost and increase opportunities to improve income. The funding was agreed at Cabinet in December.
- v. The Council engages with several regional and national commercial property agents and surveyors as well as its own contacts to seek opportunities. The Council is on all agent requirements/mailling lists for suitable investments. Also the Council sends out periodic refresher notifications of its investment requirements most recently January 2019 and offers the incentive of introduction fees for off market and on market investments which we are not already aware of. It is considered that the appointment of an external agent would not necessarily improve the efficiency of the current search activities.
- vi. Estates and Valuation considers there is merit in a modest extension of the commercial investment search area to include the Poole, Bournemouth and Southampton conurbations. Such an extension should improve the likelihood of securing good quality, income generating assets to support the Council's investment strategy and also provide socioeconomic benefits to the District, for example employment and economic activity which cross district boundaries.
- vii. Creating a centralised accommodation strategy that looks at the councils priorities from the short to medium term will be a priority for 2019/20 and progress will be reported through the Corporate Overview and Scrutiny Panel.
- viii. This Council will continue to engage and communicate with the LEP servicing the District at every possible opportunity to maximise the local economic benefit that this can bring to the area. The Cabinet will be kept updated on funding bids, whether they are successful, or not.
- ix. Corporate Overview Panel in November and Cabinet in December received a report on ICT Investment which detailed current and future priorities.
- x. As an example of where the Councils is looking at opportunities; the Cabinet agreed in December to move forward with a full procurement exercise for the delivery of the Health and Leisure service. This process will take approximately 12 months, with regular updates from Task and Finish Group to Community and Leisure Panel.

- xi. The Council has looked at the business plan for Eling Tide Mill for 2019-20. It has been agreed that the council will continue to contribute towards the Tide Mills running costs at the same level as 2018-19 but already the District Council has indicated that there needs to be a reduction in this contribution for 2020-21. 2019-20 operations performance will be key to this as it will be the full year of operating this facility following its refurbishment. The Community Overview and Scrutiny panel will be presented with an update during 2019/20.

13. RECOMMENDED:

- 13.1 Cabinet is asked to recommend to Council that:
 - 13.1.1 there is a General Fund Net Budget Requirement in 2019/20 of £17,492,790 as set out in appendix 5 to this report, including the transfers to and from reserves, as outlined in appendix 5d;
 - 13.1.2 the Band D Council Tax for 2018/19 shall be £173.36; and
 - 13.1.3 the General Fund Capital Programme for 2019/20 of £8.504m, as set out in appendix 6 to this report be approved.
 - 13.1.4 the site licence fees and service charges at Stillwater Park be increased by 3.3% in line with RPI inflation;
- 13.2 Cabinet is asked to approve a second £500k release from the Smarter Working budget to enable further transformation of accommodation conducive to the Smarter Working standard.

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Background Papers:

MTFP – August 2018
MTFP – November 2018
Smarter Working – The Case for
Change October 2018