

MEDIUM TERM FINANCIAL PLAN 2019 ONWARDS

1. RECOMMENDATIONS

1.1 Cabinet are asked to approve

- a) the emerging draft Medium Term Financial Plan to 2023/24 as set out within this report and that this forms the basis of the Council's 2020/21 budget that will be reported in February 2020;
- b) A strategy of contributing savings arising from the favourable 2019 valuation to the Budget Equalisation Reserve for the next three years;
- c) That subject to Corporate Overview & Scrutiny Panel support for the Asset Maintenance and Replacement Programme for 2019/20, initial preparatory works can commence.

1.2 Cabinet are asked to recommend to Council;

- d) That delegated authority is given to the S151 Officer in consultation with the Portfolio Holder for Finance, Investment and Corporate Services, to make pre-payments of employer contributions to the Pension Fund (including any residual deficit) if it is considered financially favourable to do so.

2. PURPOSE OF REPORT

2.1 To consider the development of the Medium Term Financial Plan 2019 onwards and consider the factors that will influence its delivery and that of the annual budget strategy 2020/21.

3. BACKGROUND

3.1 The August MTFP report set out an initial forecast outlook to the period to 2024 and set out some areas of significance whereby clarity on the financial implications to this Council was awaited. This included;

- The Fair Funding Review
- The 2019 Pension Valuation

Latest information on these fundamental areas is now contained within the body of this report, as is any other areas of information relevant to the financial planning of the Council.

4. UPDATES SINCE AUGUST MTFP

Fair Funding Review

4.1 On 4 September 2019 a 1 year spending round was announced by the government for 2020/21. The information within the spending round was largely positive for local government with additional resources being allocated (targeted predominately to Social

Care).

- 4.2 The announcement also confirmed that business rate baselines will be increased in line with inflation. This by default confirms there will be no baseline reset in 2020/21, meaning the Council will retain its above baseline growth for at least a further 12 months. In accordance with the Council's budget strategy, any surplus that results after setting a balanced budget will be placed into the Business Rate Equalisation reserve and will be available over the medium term to support the delivery of a balanced budget, when required. The new needs based distribution formula that is fundamental to the fair funding review will determine the new tariffs and top-ups each authority is subject to, which will determine the revised business rate retention values. At this point in time, it is unknown how much of the business rate growth that NFDC currently has will be retained by the Council from 2021/22 under the new formulae.
- 4.3 A one-year spending round still does very little to provide any financial assurance to Local Government beyond 2020/21. The government has clarified its intention to introduce a 75% retention scheme and the Fair Funding review in April 2021; the impact on this Council will be assessed at that point.

2019 Pension Valuation

- 4.4 The initial results of the triennial valuation of the Pension Fund were released to the Council in October.
- 4.5 In 2016 the fund was around 80% funded, meaning that each employer had to make deficit contributions over an extended period. The initial high level results for the 2019 valuation indicate that the pension could be between 97% and 100% funded following the improvement in investment returns over the period 2016-2019. Adjustments are still to be finalised to take account of the McCloud judgement and the cost cap, but the overall position is still favourable.
- 4.6 In terms of the financial impact of this valuation, the future service rate (Primary Rate) estimated for this Council is between 1.2% - 1.5% higher than the figure as included in previous medium financial planning for 2020/21, but what the higher funding level does provide is the opportunity to reduce the past deficit payments that we are currently making. Allowing for the changes that are still being worked through, predictions are that there could be a potential saving to the General Fund in the order of £1.2M - £1.5M per annum from 2020/21. Whilst this is very positive, it must be set against the potential risk that with the uncertainty of Brexit and the wider impact on the national economic climate, the fund could fall back to previous levels by the next triennial valuation in 2022. If the Council were to take this revenue saving fully into its baseline funding now, and the Fund were to decline over the period it would mean finding extra recurring revenue money at that stage (on top of any other savings required) to plug a potential deficit position.
- 4.7 It is proposed that savings arising from the favourable 2019 Pension Fund valuation largely be used to top up the Budget Equalisation Reserve in the intervening period, or support one-off expenditure. If by the 2022 valuation the returns have been maintained and stabilised (by which time we should also have more certainty about the financial outlook for the Council) the revenue savings can be factored into the MTFP at that point in time.
- 4.8 With the new de-pooling arrangements, whereby this Council now has its own

individual standing within the Fund, and subsequently its own contribution rate according to its membership profile, there is also the potential to make pre-payments of its employer contributions to the Pension Fund.

Hampshire County Council Budget Announcements

- 4.9 The Council has received correspondence from the County Council which will have a significant effect of the finances within the Environment and Regulation Portfolio, specific to long-standing arrangements on the treatment of recyclable waste.
- 4.10 As the collection authority, it is this Council's responsibility to collect waste and recycling from the dwellings within the district. This is then 'delivered to the County', who act as the disposal authority. Recyclable materials have a value on the open market, and as such, previous arrangements resulted in the district council receiving an income from the sale of these materials. The value of this income to the Council is around £680,000 per annum. The intention of the County is to retain this income, rather than pass onto the District.
- 4.11 Non-recyclable waste does find its way into the recycling; this results in the recycling becoming 'contaminated'. There is a cost attached in dealing with separating and then disposing of the non-recyclable waste which has been incorrectly mixed with waste that can be recycled. It is the County Council's intention to pass the cost of dealing with 'Contaminated Waste' onto the collection authorities. Estimates suggest this new charge could be in the region of £120,000 per annum.
- 4.12 These adverse financial implications will be fully considered by the Environment Scrutiny and Overview Panel and Task and Finish group established to work on the Council's updated Waste Strategy. It is unlikely however that these additional revenue pressures will be absorbed by the Portfolio, and so it has been assumed that a refreshed programme of efficiencies (savings and new income) will be required across the Council to offset these cost pressures. The changes are proposed take effect from April 2021 (subject to further confirmation), and so the intention is to allow for savings equivalent to £200,000 per annum each year for four years thereafter to re-address the requirement for a balanced budget.

Pay & Reward Reviews

- 4.13 The Council's employee side liaison panel (ESLP) is a consultative panel including NFDC cabinet members and union representatives, supported by senior officers. The panel reports to the HR Committee. The ESLP work programme for 2019/20 includes several strands of pay reviews, including the potential to move the NFDC pay spine to the National Joint Council (NJC) pay spine and a senior management pay review.
- 4.14 At the time of writing, the 2019/20 pay reviews have not yet progressed to a point whereby specific financial implications over the medium term can be estimated. The existing MTFP set aside £90k in 2020/21 on the anticipation of additional costs associated with the reviews. This figure will be reviewed in future MTFP's as the pay reviews move forward.

5. REFLECTION ON 2019/20 FINANCIAL MONITORING AND IMPACT OVER THE MEDIUM TERM

- 5.1 At its meeting in September, the Cabinet reviewed the financial position of the Council for the 2019/20 financial year. The report included an updated General Fund, Capital Programme and Housing Revenue Account positions.
- 5.2 The report highlighted a few areas of income that were currently behind the targeted position for the year. The Health & Leisure income position was reported as a shortfall of £90k. It is not looking likely that this position will reverse over the latter part of 2019/20, and so it ought to be assumed that this income reduction should be factored into the 2020/21 budget planning.
- 5.3 The Corporate Overview and Scrutiny panel will receive an update report on the delivery of the ICT Strategy 18-22 at its meeting in November. This will include a revised delivery timetable and associated financial implications. These matters will be picked up in the next MTFP, with the funding of the 2020/21 share of costs coming directly from the revenue budget.

6. ASSET MAINTENANCE AND REPLACEMENT PROGRAMME AND CAPITAL PROGRAMME

- 6.1 Service Managers are currently working with their Portfolio Holders in submitting their project requirements for 2020/21. The revenue funded Asset Maintenance and Replacement programme projects are being devised in accordance with the funding available within the general fund budget. At headline level, the budgets set aside to support the delivery of this programme are;

	2020/21 £'000
Offices, Depots and Outlying Buildings	150
Health & Leisure	500
ICT	150
Vehicles & Plant (revenue cost)	1,150
Non-Core Project Fund (for services to bid against)	50
TOTAL	2,000

- 6.2 The proposed Capital Programme covering 2020/21 – 2022/23 is also currently being developed. A project of note as included within the February 2019 budget setting paper to Cabinet was the proposal for a new Depot on the Hardley Industrial Estate. To date during 2019/20, design and feasibility works have progressed, with the Cabinet set to receive the required business plan during 2019/20 for final approval, before the project be progressed through to procurement.
- 6.3 The Corporate Overview and Scrutiny panel will have the opportunity to review the high-level projects as submitted under these programmes. In order to progress projects with the level of immediacy required in order to deliver them in the financial year to which they relate, initial preparatory works will commence shortly thereafter.

7. ALIGNMENT OF MEDIUM TERM FINANCIAL PLAN TO DEVELOPING CORPORATE PLAN

7.1 Members of the Cabinet have been developing the Corporate Plan 2020-2024. This will identify the key areas of priorities and actions for each Portfolio during the period covered by the plan. The Council's financial strategy will need to align to the Corporate Plan priorities, and so future MTFP's will address and identify necessary changes in financial resources accordingly. Some key themes are emerging, including the Council's intention to establish an Environmental Action Plan, an updated Waste Strategy and continue with the investment in new housing and temporary accommodation.

8. GENERAL FUND RESERVES

8.1 The Council holds various reserves to underpin its financial stability, support future aspirations in terms of capital and one-off revenue programmes and to offer security against funding and budgeting shortfalls that may arise over a period of a medium term financial plan.

8.2 The Council's MTFP strategy includes the continued use of the budget equalisation reserve over the period; contributing to or utilising accrued reserves, when necessary. None of the actions as included in this latest reported MTFP position suggest a deviation from this planned position.

9. CRIME AND DISORDER / EQUALITY AND DIVERSITY / ENVIRONMENT IMPLICATIONS

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

10. PORTFOLIO HOLDER COMMENTS

10.1 This report provides some clarity in respect of the previously reported known unknowns but still, in light of the information provided by central government, cannot offer certainty, within its financial forecasting, beyond the one year funding review.

10.2 In a post-Brexit world, it would not be prudent to rely on the investment returns, seen within the pension fund over the period 2016-2019, to be repeated in the period 2019-2022. In order to protect the Council's long term financial position this report does not, at this time, propose to alter its underlying strategy on Council Tax.

For Further Information Please Contact:

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Background Papers:

Feb 19: Medium Term Financial Plan and Annual Budget 2019/20
Sept 19: Financial Monitoring Report