

MEDIUM TERM FINANCIAL PLAN 2021 ONWARDS

1. Recommendations

Cabinet are asked to recommend to Council;

- a) That the revised MTFP, as outlined within the report and appendices be adopted; and
- b) That the reporting timeline as set out in section 8 be agreed

2. Purpose of Report

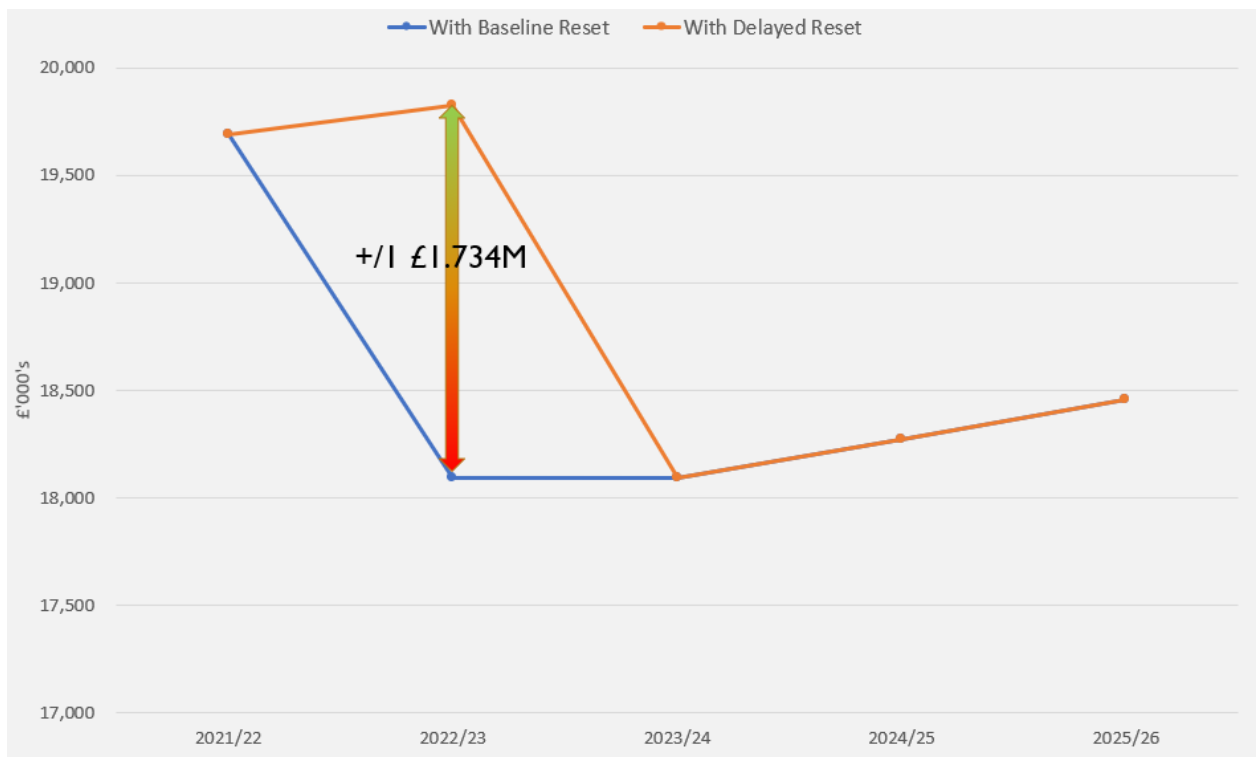
- 2.1 To consider the initial development of the Medium Term Financial Plan 2021 onwards and consider the factors that will influence its delivery and that of the annual budget strategy 2022/23.

3. Background

- 3.1 The Council's financial strategy has been one of cost reduction and the crystallisation of efficiencies from all services, supported with the targeting of new and additional income generation. Financial stability over the medium-to-long term has underpinned the Council's financial strategy, with due consideration being given to the potential implications that the Fair Funding Review and Business Rate Reset will have on this Council. The Council has understood the need to consider its overall organisational business model in order to ensure the future protection of its services and aligns the financial plan to ensure its delivery of key priorities as outlined in the Corporate Plan.
- 3.2 Actions need to commence on the development of future years' budgets. To support this work it is necessary that an assessment is made of the likely financial scenario based upon latest available information. To help support the important work of Portfolio Holders and officers in developing future plans, the future outlook and the current uncertainties are set out within this report and a prudent forecast set out at appendix 1.
- 3.3 The announcement of yet another 1-year funding settlement for 2021/22 did not come as a surprise considering pressures faced by the Government during 2020/21. There is still significant doubt as to whether the long-awaited Fair Funding Review will come into effect from 2022/23, or whether another intermediary 1-year settlement for 2022/23 is more likely. The Business Rate Retention Scheme is still under review within the context of the Fair Funding Review. The latest expectation is based on a hard reset with partial redistribution of the national surplus, and a revised retention scheme (currently a 50% retention scheme, with the District Council retaining 40% of Business Rate growth).
- 3.4 The Medium Term Financial Plan has been populated using the most up to date information currently available covering the period to 2025/26. The effect of the Fair Funding Review and final design of the Business Rate Retention Scheme as outlined in 3.3, including the timing of the initial reset, and frequency thereafter of partial or full resets, and the ultimate proportion of rates to be retained by the District Council, has the potential to significantly amend the funding figures currently forecast.

4. Funding Assumptions over the Medium Term

- 4.1 Ongoing annual funding support from Central Government, other than the Business Rate Retention scheme, is now limited to the receipt of New Homes Bonus (NHB). The Council is assuming that NHB as a funding source will also be phased out, and so only legacy payments are included in the MTFP forecast (i.e. payments received in relation to previous years' are received for 4 years) rather than new bonus being received annually. The final NHB value included within the MTFP is £182,000 for 2022/23.
- 4.2 The assumptions on Business Rate funding will require updating as the ongoing work taking place at the MHCLG on the revisions to the Business Rate Retention Scheme continues. At present, the base scenario has been prepared on the basis that a hard baseline reset will take place in 2022/23 with a redistribution of £400,000 to this Council. In planning for this hard reset, the Council established a Budget Equalisation Reserve and has utilised this reserve in addressing budget fluctuations since 2017/18. Although changes to the business rate system could be implemented in isolation of the spending review, this is considered unlikely. The reset may therefore be delayed completely, meaning the Council will potentially retain all growth for another fiscal period (2022/23). Under this variant scenario, the funding assumptions for 2022/23 currently included within the outlook at appendix 1 would improve by £1.734 million (1 year only).
- 4.3 Prudent financial planning means that the Financial Strategy 2022/23 is assuming a Baseline Reset takes effect (removal of the growth to date, and redistribution of £400,000). More will be known following Autumn '21.
- 4.4 The following graph demonstrates the base and variant funding scenarios:



- 4.5 The Council's base budget for 2021/22 also includes Flexible Homelessness Support Grant, and specific other homelessness prevention grants. For the time being, the base scenario assumes the flexible grant will be static over the period, and the removal of a specific grant (£125,000) that was received in 2021/22.

5. Budget Requirements over the Medium Term

5.1 Pay & Price Increases

- 5.1.1 Increases in costs were expected to total £3.140 million over the next 4 year period, based on in-house service delivery. The decision to award a Leisure Contract to a third party operator has transferred the pay award and incremental progression risk to the new Leisure Centre Operator, and so has reduced the cumulative increase by £400,000, to £2.740 million.

The assumptions include the following areas of pay and price increases;

- Headline Pay Award of 1.75% for 2021/22 (not fully budgeted within the base budget for 2021/22)
- Annual Pay Award of 2% per annum
- Incremental progression
- Fuel and Energy Cost Increases

- 5.1.2 During 2019 the Pension Fund actuary conducted their 3 yearly review, the result of which has determined the primary and secondary employer contribution rates for this Council for 2020/21 – 2022/23. The Council has retained a budget of £1.25 million within its General Fund on the assumption that a secondary rate might be re-introduced by the actuary and approved by the scheme administrator when the 2022 triennial review is completed. Future MTFP updates will report on the implications of this 2022 valuation once known.

5.2 Budget Adjustments Relating to one-off Items

- 5.2.1 There are a few items included within the MTFP that are short-term / one-off items. Shown within appendix 1, these result in an increase in budget requirement of £37,000 to 2022/23.

5.3 Ongoing Savings

- 5.3.1 The plan also includes assumptions as a result of decisions and reviews that have commenced in prior years, where work is currently underway or is scheduled to commence. These adjustments contribute £488,000 to the achievement of a balanced budget for 2022/23, with a further £180,000 attributable to the Leisure Contract position and electoral boundary review, with these further savings coming into effect post 2022/23. The savings can be populated as follows:

- Delivery Model Review
- Efficiency Programme
- Strategy Investment
- Payback
- Windfall

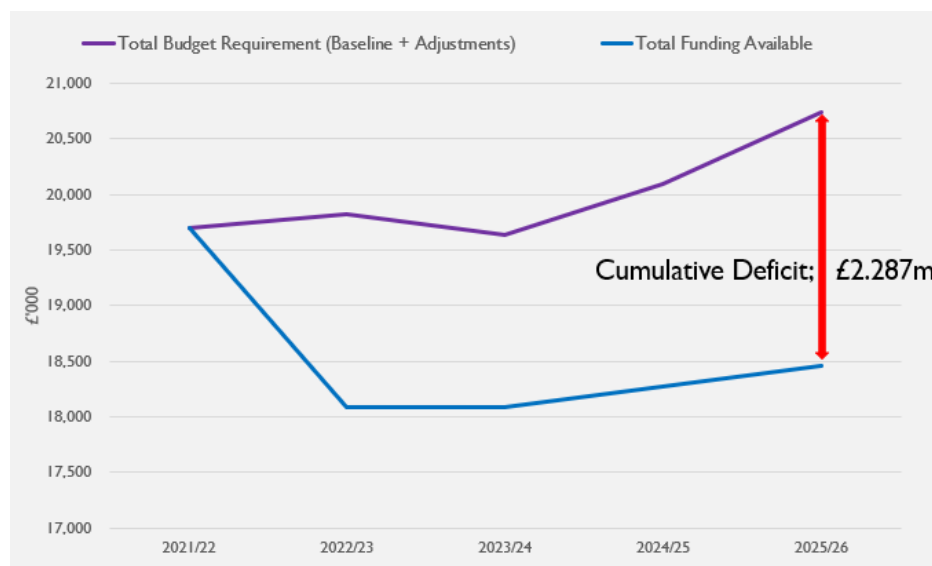
5.4 New Budget Requirements

- 5.4.1 As has been previously reported, the likely implication to the proposed changes from the County Council will see this Council's recycling income reduce and waste disposal charges increase by £400,000 for 2022/23, and every year hence. The Council are working with the County Council and the other waste collection authorities on this issue and updated forecasts will be presented within future MTFP updates.
- 5.4.2 Additional upfront costs are likely to be incurred in the roll up to the delivery of the new Waste Strategy. An additional £100,000 has been included within the MTFP, with the assumption these costs would be removed once the new strategy is fully bedded down and operational.
- 5.4.3 The continued roll out of the Digital Services for Residents facet of the ICT Strategy 18-22 will likely result in additional revenue costs due to the nature of the investment required and the favoured cloud hosting model, hence including an additional £100,000 in the MTFP, reducing to £50,000 per annum after 1 year. Investment in any system that results in increased revenue costs will be subject to Business Case approval by the Cabinet.

5.5 COVID-19 Recovery

- 5.5.1 Income losses, new expenditure pressures and government support grants were built into the base budget for 2021/22. The MTFP assumes the removal of the grants in 2022/23 and the full recovery of income across services, including services delivered via contract, over a 2 year period.
- 5.5.2 The Financial Monitoring Report, elsewhere on this Cabinet agenda, provides commentary on where the forecast additional COVID-19 expenditure is likely to be incurred in 2021/22.

- 5.6 **The overall forecast deficit taking into the account the funding assumptions and necessary budget movements totals £2.287 million by 2025/26.** It is vitally important that the Council continues to pro-actively address this funding deficit which will undoubtedly include difficult decisions on service delivery over the period.



6. Financial Strategy and Options Identified to Address the Budget Deficit

6.1 In order to address the forecast deficit to 2025/26, 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,
- The identification and delivery of service reviews ensuring a commitment towards efficient and effective delivery of Council Services, placing less reliance on government support and funding from the taxpayer,
- 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) as necessary,
- The utilisation of reserve balances (and when necessary external borrowing) to invest in assets and assist in supporting a vibrant and robust New Forest Economy, whilst targeting valuable additional income,
- Ensuring strategies developed through the corporate framework appropriately feed into the Council's financial strategy; and
- Invest in a Cleaner Greener approach to financial planning and spending.

6.2 The options identified, as shown within Appendix 3 include:

- The Generation of additional net income through the delivery of the Property Strategies. As well as having significant economic and social benefits, the Commercial and Residential Property Strategies are also targeted to generate additional net income of £1 million by 2025/26. Currently £395,000 of this overall target is included within the base budget because of acquisitions made to date.
- An efficiency programme, targeted at £1 million over the MTFP period, with £138,000 included within the base budget assumption for 2022/23.
- The continuation of Council Tax increases over the period has the potential to generate an additional annual income of £1.458 million by 2025/26.
- The Budget Equalisation Reserve balance of £2.837 million is available to plug short term budget gaps, such as the £903,000 currently shown for 2022/23. Use of this reserve is only a short term fix however, as reserves can only be used once, they do not represent a long term fix to the deficit over the period.

6.3 **The sum of the options identified total £2.925 million.** The headroom created allows for the Council to make choices on which options to progress with fully, and ultimately allows choices on where it may decide to further invest in prioritised service delivery.

7. Other Key Factors Relevant to the Council's Medium Term Financial Plan

7.1 County Deals

7.1.1 In July '21 the Secretary of State for Housing Communities and Local Government set out a new approach to devolution;

“Counties, towns and villages are an essential part of the nation and should neither be excluded from the devolution enjoyed by many cities and suburbs, nor forced to wear a model which can seem ill-fitting.”

In advance of the Levelling Up White Paper, County Deals are intended to give

places the tools they need to pilot new ideas, create jobs, drive growth and improve public services.

- 7.1.2 As outlined in section 6 of this report, this Council is committed to the effective and efficient delivery of services, and is keen to identify and explore options for partnering and collaboration with others where it is to the benefit of the New Forest residents and Tax Payers.

7.2 Local Plan Delivery

- 7.2.1 The Council continues to be measured at a national level against our Housing delivery targets. There are a number of challenges associated with housing delivery in the district and Planning will need to explore a range of initiatives to increase the rate of housing delivery, some initiatives could need some forward funding (nitrate mitigation for example). Whilst each of these matters would need to be the subject of a separate detailed decision report, at this point it is appropriate to highlight the potential budgetary implications.

The Local Plan Part 1 2016-2036 sets out ABP intention, as set out in the Draft Port of Southampton Master Plan 2016, to seek consent for port expansion on to Dibden Bay. Given the scale of development the project would qualify as a Nationally Significant Infrastructure Project (NSIP). This would fall to the Planning Inspectorate to consider, however it would require significant input from the Council working to a fixed NSIP timetable. Whilst there would be discussion with ABP around project resource nevertheless there will be a need for significant resources focused on this project and so there will be budgetary implications which will need to be considered when this NSIP project is launched.

7.3 Solent Freeport

- 7.3.1 In July, the Solent Freeport bid passed another key milestone as the Outline Business Case was submitted to the Chancellor of the Exchequer and Secretary of State for Housing Communities and Local Government. As outlined in the recent Council Report (July '21), this Council recognises the significant employment and economic benefits that the Solent Freeport will bring to the area, and will be working with the private and public sector partner organisations in the development of the Full Business Case.

8. Reporting Timeline

- 8.1 It is important that the Medium Term Financial Plan supports the ambition of the Council and remains driven by the objectives to be set out in the up to date Corporate Plan. The organisation must be able to support both and must remain vigilant and susceptible to change. A timeline is set out below for Cabinet which supports the development of the MTFP, through to the final setting of the 2022/23 budget:

	Cabinet Meeting	Report
1.	December	Medium Term Financial Plan to 2025
2.	December	Setting the Council Tax Base
3.	February	MTFP to 2025 and setting of 2022/23 budget

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

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

10. Portfolio Holder Comments

10.1 I am pleased that we continue to be in a sound financial position although rising cost and revenue pressures, such as the potential baseline reset in business rates, requires good and prudent management if this state is to be maintained.

10.2 As always my thanks to everyone at NFDC as such results are only delivered, in these challenging times, through working as a team.

For Further Information Please Contact:

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MEDIUM TERM FINANCIAL PLAN 2021 - 2025

SUMMARY OF RESOURCES

FUNDING

	2021/22	2022/23	2023/24	2024/25	2025/26
Original					
Budget	Forecast	Forecast	Forecast	Forecast	Forecast
£'000's	£'000's	£'000's	£'000's	£'000's	£'000's
Business Rates Baseline	3,997	4,077	4,158	4,242	4,326
- Business Rates Tariff Adjustment					
- Business Rates Retained Surplus	2,134				
- Business Rates Collection Fund Deficit(-) / Surplus	-424				
Transition Grant / Business Rate Redistribution		400	400	400	400
New Homes Bonus	276	182			
Local Council Tax Reduction Grant	209				
Lower Tier Services Grant	170				
Additional Homelessness Grant	125				
Irrecoverable Tax Loss Compensation	44				
Contribution to (-) Budget Equilisation Reserve	138				
Total Government Determined Resources	6,669	4,659	4,558	4,642	4,726
Council Tax					
Base from Previous Year	12,969	13,023	13,433	13,532	13,632
- Council Tax Collection Fund Deficit(-) / Surplus	-312	312			
Tax Base Adjustment (Additional Properties)	8	98	99	100	100
Agreed Increase	358				
Total Council Tax	13,023	13,433	13,532	13,632	13,732
TOTAL FUNDING	19,692	18,092	18,090	18,274	18,458
Cumulative Change from Original 2021/22		1,600	1,602	1,418	1,234
%age change		8%	8%	7%	6%

MEDIUM TERM FINANCIAL PLAN 2021 - 2025

SUMMARY OF BUDGET REQUIREMENT

	2022/23	2023/24	2024/25	2024/25
	Forecast	Forecast	Forecast	Forecast
	£'000's	£'000's	£'000's	£'000's
Baseline Funding 2021/22	19,692	19,692	19,692	19,692
Budget Requirement 2022/23 - 2024/25				
Pay & Price Increases				
Pay Award (2021/22 assumed 1.75%)	300			
Pay Award (assumed 2%)	460	460	460	460
Increments	200	200	200	200
Reduced Pay Award and Increments - Leisure Delivery Review	-100	-100	-100	-100
Prices (Insurance, Utilities, Fuel & Maint.)	50	50	50	50
Pay & Price Increases	910	610	610	610
Cumulative Pay & Price Increases	910	1,520	2,130	2,740
Budget adjustments relating to one-off items				
Reversal of Vacancy Management		100		
Milford Beach Shingle Recharge (3 yr budget top-up from 21/22)			-87	
Taxi Licence 5 yr cyclical income	37			
Planning: Strategic Sites		-80	40	40
	37	20	-47	40
Ongoing Savings				
Delivery Model Review - HLC Operating Position	-29	-100		
Delivery Model Review - HLC Support Services	-171			
Delivery Model Review - Electoral Review of the District		-80		
Efficiency Programme - Executive Management Team	-100			
Efficiency Programme - Enforcement Team	-38			
Strategy Investment - Commercial	-45			
Strategy Investment - Residential				
Payback - Keyhaven Moorings Improvements	-53			
Payback - Solar PV investment	-7			
Windfall - Removal of NNDR on Public Conveniences	-45			
	-488	-180	0	0
Cumulative effect of Adjustments and Savings	-451	-611	-658	-618
New Budget Requirements				
HCC T19; Waste Collection	400			
Waste Strategy Costs	100		-100	
Digital Services for Residents	100	-50		
	600	-50	-100	0
COVID-19 Recovery				
Health & Leisure Centre Income Recovery	-1,500	-500		
Planning Income Recovery	-25			
Parking Income Recovery	-80	-40		
Interest Earnings	-50	-50		
Additional Expenditure as a result of Covid-19	-360			
COVID Support Grant 2021/22	786			
Sales, Fees and Charges Scheme Q1 2021/22	300			
	-929	-590	0	0
Cumulative effect of New Requirements and COVID Recovery	-329	-969	-1,069	-1,069
Total Budget Requirement (Baseline + Adjustments)	19,822	19,632	20,095	20,745
Total Funding Available (as above)	18,092	18,090	18,274	18,458
Estimated Cumulative Surplus / Shortfall (-)	-1,730	-1,542	-1,821	-2,287

MEDIUM TERM FINANCIAL PLAN 2021 - 2025

OPTIONS IDENTIFIED TO CLOSE BUDGET SHORTFALL

Commercial / Residential Property Investment 2021/22
 Commercial / Residential Property Investment 2022/23
 Commercial / Residential Property Investment 2023/24
Cumulative Property Investment Income

Targeted Efficiency Programme

£5 Council Tax Increase 2022/23
 £5 Council Tax Increase 2023/24
 £5 Council Tax Increase 2024/25
 £5 Council Tax Increase 2025/26
Cumulative Council Tax Increase

MTFP 24/25 Potential Impacts....

Potential: Business Rate Changes
 Potential: Fair Funding Review
 Potential: Waste Strategy
 Potential: Triennial Pension Valuation 2022
 Potential: Asset Review

Total of the Options Identified

Temporary Use of Equalisation Reserves (-) / Budget Surplus Headroom +

2022/23	2023/24	2024/25	2025/26
Forecast	Forecast	Forecast	Forecast
£'000's	£'000's	£'000's	£'000's
135	135	135	135
220	220	220	220
	250	250	250
355	605	605	605
112	362	612	862
360	360	360	360
	363	363	363
		366	366
			369
360	723	1,089	1,458
+/- ?	+/- ?	+/- ?	+/- ?
+/- ?	+/- ?	+/- ?	+/- ?
+/- ?	+/- ?	+/- ?	+/- ?
	+/- ?	+/- ?	+/- ?
+/- ?	+/- ?	+/- ?	+/- ?
827	1,690	2,306	2,925
-903	148	485	638

Reserves Supporting the MTFP

General Fund Balance
 Budget Equalisation Reserve

3,000	3,000	3,000	3,000	3,000
2,837	1,934	1,934	1,934	1,934