EAST STAFFORDSHIRE BOROUGH COUNCIL

REPORT COVER SHEET

Title of Report:	Medium Term Financial Strategy 2019/20 – 2023/24
Meeting of:	Cabinet
Date:	18/2/2019
Is this an Executive Decision:	No
Is this a Key Decision:	Yes
Is the report Confidential:	No
If so, please state relevant paragraph from Schedule 12A LGA 1972:	n/a

Essential Signatories:

ALL REPORTS MUST BE IN THE NAME OF A HEAD OF SERVICE

Monitoring Officer

Date …………………. Signature ………………………..

Head of Service and Chief Finance Officer

Date …………………. Signature ………………………..

OPEN AGENDA

E A S T   S T A F F O R D S H I R E   B O R O U G H   C O U N C I L

Report to Council

Date: 25th February 2019

TITLE:	Medium Term Financial Strategy 2019/20 – 2023/24
PORTFOLIO:	Finance
HEAD OF SERVICE:	Sal Khan - Head of Service
CONTACT OFFICER:	Lisa Turner – Chief Accountant ext. x1399
WARD(S) AFFECTED:	All

1. Purpose of the Report

1.1 The report sets out for members the Medium Term Financial Strategy (MTFS) for the period covering 2019/20 to 2023/24. This includes the Council's Capital Programme and the Asset Management and Capital Strategy, which is set out in Appendix C to this report.

1.2 Members should also note that there will be a further report elsewhere on the Council agenda relating to the Council's Treasury Management Strategy for 2019/20, which dovetails into both the Council's revenue and capital commitments. If members have any questions on the detailed estimates and papers it would be beneficial to advise the officers in advance so that answers can be available.

1.3 Members are also reminded that in accordance with Section 106 of the Local Government Finance Act 1992, any Member in council tax arrears is unable to participate in the debate and decision making in relation to the budget and council tax setting.

2. Executive Summary

2.1 The announcement of the provisional local government settlement for 2019/20 was made in December 2018. This largely confirmed the figures published in the multi–year settlement deal previously agreed – extending the period of unprecedented funding reductions to local authorities until at least 2019/20.

2.2 Key points from the settlement are as follows (further details of the settlement can be found at Section 5 of the report):

- For East Staffordshire the core settlement has resulted in a cash reduction of 9% or approximately £0.3m for 2019/20.
- When added to previous reductions, this results in a cumulative reduction in formula funding of £6.4m or 78% since austerity measures began in 2011/12.
- Incorporated into this reduction is the removal of the proposed (£97k) business rates tariff adjustment (more commonly known as Negative RSG);
- Proposals to increase the New Homes Bonus (NHB) deadweight have not taken place, this means due to strong local housing growth a £0.2m or 11% increase in NHB funding to £1.8m.
- The Council, alongside other Staffordshire Authorities, has been awarded Business Rates Pilot status for 2019/20. The estimated one-off windfall being £0.2m for East Staffordshire Borough Council, and in total £13.3m to support wider services across the County as a whole.

2.3 Our continued strategic approach to financial planning has enabled us to once again respond to this challenging settlement positively, ensuring wherever possible that priority front line services are protected, whilst as the same time presenting a balanced budget. The budget has been balanced from 2020/21 onwards with the temporary use of the new homes bonus reserve. Whilst this means there is an ongoing requirement to deliver savings, the Council has an effective track record of delivering savings, as demonstrated at Paragraph 8.5 alongside our efficiency strategy.

2.4 There is a great deal of uncertainty surrounding funding levels from central government for the period 2020/21 onwards. The government is due to undertake the latest spending review during 2019, this will determine the overall quantum of funding available to the sector as a whole. In addition to this, the Government has previously announced significant changes to the local government finance system which are due to come into effect from 2020/21 onwards:

- The fair funding review will determine a new mechanism for allocating resources within the sector;
- The Business Rates Retention Scheme is due to be reset and at the same time will move from 50% to 75% being retained locally, potentially resulting in some significant modifications to the scheme; and finally
- Indications suggest that the New Homes Bonus Scheme is unlikely to continue in its current form beyond 2019/20.

2.5 The potential impact of these changes represents significant uncertainty in terms of the financial resources available from 2020/21 onwards. With this in mind, the proposals within this strategy scale back core funding levels to the funding settlement from 2020/21 onwards, removing the existing business rates growth. Whilst this is a prudent approach at this stage, the outcome of these reviews could potentially be more challenging than these assumptions. Paragraph 8.3 demonstrates the impact/sensitivity on the ongoing forecast savings requirement from alternative settlement scenarios.

2.6 Due to continued uncertainty surrounding the future of the New Homes Bonus Scheme, the Council has previously adopted the prudent strategy of only including 65% of the funding into the base budget, with the remainder being treated as windfall. This strategy continues that approach, capping the level of funding built into the base budget at £850k from 2020/21 onwards due to the additional uncertainty that exists for 2020/21 and beyond. It is proposed to continue the previous practice to utilise the windfall element of the 2019/20 funding to reduce the underlying debt and generate ongoing revenue budget savings. Further details in relation to New Homes Bonus are set out in Section 6 of the report.

2.7 In addition to the above pressures arising from a reduction in central funding, the authority also has significant ongoing local pressures amounting to approximately £0.3m in 2019/20. These pressures arise from a combination of issues, the most significant of which being changes to green waste recycling credits by Staffordshire County Council, resulting in a loss of income of £97k in 2019/20 rising to £394k by 2022/23. Further details on budget pressures and growth are set out in paragraph 9.3.

2.8 The authority has a pro-active and rolling approach to financial planning and has identified a number of savings proposals for 2019/20, which total in excess of £0.9m. In addition to which during the course of the year the authority took the decision to award the management of its leisure services to a third party provider, this is anticipated to deliver significant direct savings from 2020/21 onwards. Details of the most significant savings or increased income levels are detailed at paragraph 9.4 onwards.

2.9 This proposed Medium Term Financial Strategy incorporates the estimated impact of the business rates retention and local council tax support schemes that were introduced from 1st April 2013. These schemes continue to transfer significant risks to local authorities, as well as volatility. Within this environment we have been prudent in our estimates, setting aside sums to mitigate the risks. These risks, alongside other key financial risks that the Council must manage are outlined in Section 11 of the report.

2.10 During the autumn of 2018 the Council undertook a budget consultation exercise. The key findings are outlined at paragraph 9.2 of the report, this includes 65% of those surveyed indicating that the Council should protect services, even if council tax and fees for service users' increase. The Borough Council's council tax is now below the national average. In line with central government assumptions, this strategy assumes that Council Tax (Band D) will increase by £5 (or 50p over 10 monthly instalments) from 2019/20.

2.11 The Council's Capital Programme is included within the MTFS (Section 13), along with the supporting Asset Management and Capital Strategy (Appendix C). The Capital Programme makes provision for the final year of the current Neighbourhood Working Scheme, Disabled Facility Grants, and Leisure Development at part of the transfer to a new leisure provider. There are also sums allocated to support a reduction in debt costs and funding remains available to support further projects, such as the regeneration of public realm in Station Street - Burton and the potential to match fund enhancements at the Washlands. In accordance with the Capital Strategy, these will be brought forward for approval once there is a fully developed business case in place. The Council, in accordance with CIPFA's Prudential Code, must consider the impact of the Capital Programme on the prudential indicators, this is set out within the Treasury Strategy.

2.12 The Council's Chief Financial Officer is required annually to report on the robustness of reserves and of the budget in totality. The General Reserve is risk assessed at a minimum level of £1.3m. This is consistent with previous years and amounts to just 3% of gross spending. Further details in relation to reserves are set out at Section 14.

2.13 The report concludes that the Chief Financial Officer views both the revenue and capital budgets are prudent and affordable. Both budgets take account of external demands, service pressures and risks and leave the Council with a comfortable level of reserves. Looking ahead to 2020/21 and beyond, the scale of savings required is a significant challenge. Consistent with our efficiency plan, members and officers will need to identify more effective ways of service delivery in order to ensure the required savings are delivered.

2.14 In approving the MTFS the level of Council tax required will be £172.30 (Borough Council at Band D), a £5 or 3% increase on the 2018/19 level. A separate report will be on Council agenda for formal approval of the overall Council tax for 2019/20.

3. Contribution to Corporate Priorities

3.1 The Medium Term Financial Strategy contributes to and underpins all priorities.

4. Objectives of the MTFS

4.1 The MTFS has nine objectives, to:

- Show how resources support the corporate plan over the period,
- Provide a platform to support the decision making framework,
- Enable the Council to be proactive rather than reactive,
- Act as a barometer and give early indication of the need to revisit priorities,
- Support sustainable services and ensure reserves are sufficient,
- Hold a working balance to respond to unexpected events,
- Be responsive to changing risks, needs and legislation,
- Support the Council's service and core strategies, and
- Provide indications of future Council tax levels.

5. Central Government Funding Settlement

5.1 In December 2015 the government announced an offer to local authorities of a four year provisional settlement for 2016/17 to 2019/20. The offer was conditional on authorities publishing an efficiency plan and was subject change due to uncertain future events and annual inflation adjustments to the business rates baseline.

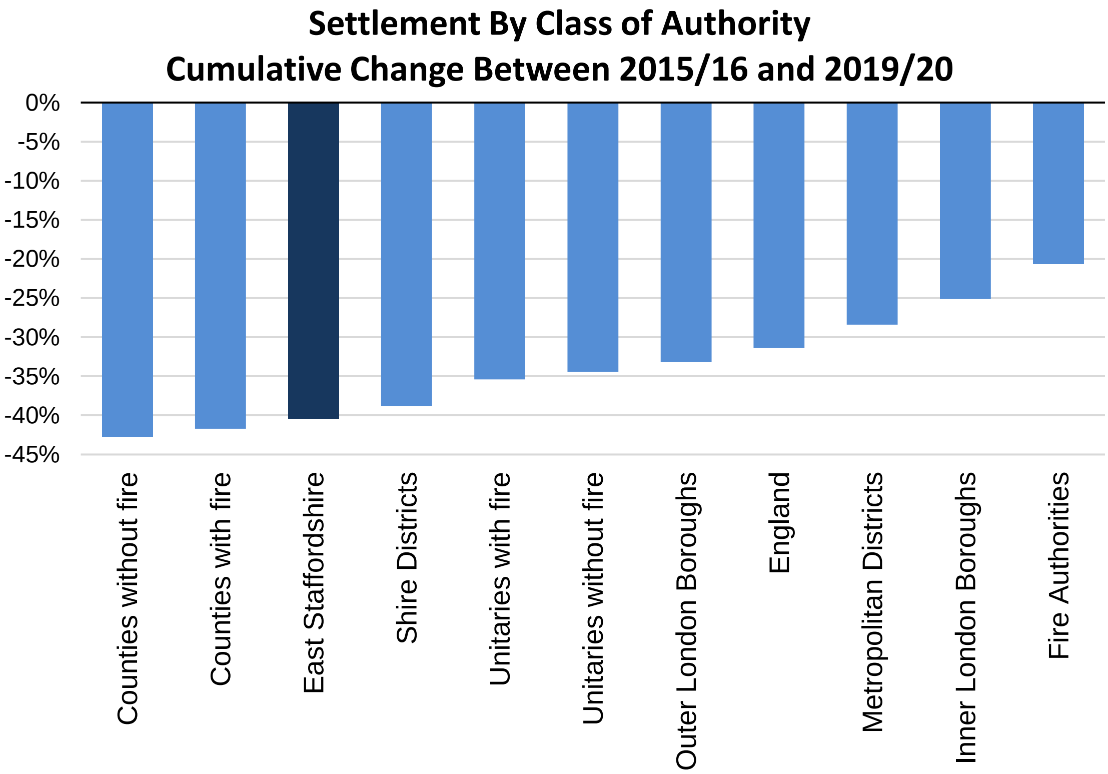
5.2 The Council published its efficiency plan in September 2016 and subsequently accepted the multi-year settlement offer. Subject to the annual business rates inflation adjustment, these figures were largely re-confirmed as part of the provisional local government finance settlement for 2019/20 in December 2018. However, following consultation the Secretary of State announced that the business rates tariff adjustment, this is more commonly referred to as "negative RSG", originally incorporated into the settlement is to be abolished and fully funded for 2019/20. For this authority it means the settlement funding assessment will be higher (£97k) than previously notified.

5.3 The table below sets out the settlement, as announced - overall this results in a £0.3m or 9% reduction in funding in the final year of the multi-year settlement period. It also highlights that 2018/19 was the final year that the Borough Council received core revenue support grant from the Government *(the settlement includes a combination of revenue support grant and the business rates baseline which authorities retain – although this is subject to flexibility via the Business Rates Retention Scheme – Section 6).*

Table 1	Revenue Support Grant £m	Business Rates Baseline £m	**Formula Funding £m**	Reduction £m	Reduction %
2018/19	0.383	3.077	**3.460**		
2019/20	-	3.148	**3.148**	**0.312**	**9.0%**

The government also announced that the surplus on the national business rates levy account is being re-distributed, with the Council's' share being £48k, although this is payable in 2018/19.

5.4 The graph below compares the funding reductions during this spending review period 2017/18 to 2019/20 between different classes of authority. The reduction for both East Staffordshire and County Council's in general are significantly higher than all other types of authority. This is because the Government recognise that County/Districts are able to generate significantly more income from increasing council tax levels than metropolitan areas.



5.5 The table below compares the funding settlements since austerity measures began in 2011/12 with the 2010/11 base amount. This shows the funding allocation, adjusted to take into account the transfers, to allow for direct comparison on a like for like basis. This demonstrates the unprecedented scale of the reduction - **a cumulative cash reduction of £6.4m or 78%**, on a like for like basis, since 2010/11:

Table 2	**Formula Funding* £m**	Cumulative cash reduction	
		£m	%
2010/11	**8.220**	-	-
2019/20	**1.795**	6.425	78%

*after adjustment for transfers in

5.6 The figures in the above table can be reconciled back to the settlement announced by government by adding back the transfers that have taken place during this period. These relate in the main to the transfer of responsibility for local council tax support and also the compensation announced by government for those authorities that froze council tax during the last parliament. This reconciliation is shown in the table below in relation to 2019/20:

Table 3	**2019/20 £m**
Comparator Figure (Table 2)	**1.795**
Local Council Tax Support Funding	**0.922**
Council Tax Freeze Funding	**0.381**
Homeless Prevention (previously a separate grant)	**0.050**
Funding – as per Settlement (Table 1)	**3.148**

5.7 From 2016/17 onwards the settlement incorporated changes to the funding model which results in higher central government funding reductions for those authorities with relatively greater levels of income from council tax – on the basis that these authorities have the ability to generate additional income locally from increasing council tax levels. This was a significant policy change, which is also reflected in the Government's published core spending power projections for individual authorities which show council tax increasing slightly below the level which would trigger a referendum.

5.8 The Government set the council tax referendum limit for lower tier authorities such as East Staffordshire at 3% or higher than £5 for a Band D Property. There is increased flexibility for upper-tier councils with responsibility for Social Care (subject to a maximum of 6% for the period 2017/18 to 2019/20).

6. New Homes Bonus Scheme

6.1 In addition to the formula funding, we also see the continuation of the New Homes Bonus Scheme. This is a non-ring fenced grant which is based on the number and type of housing properties brought on to the rating list each year. The amount of New Homes Bonus generated is split in two tier areas 80/20 in favour of District Councils.

6.2 The Government previously implemented changes designed to “sharpen” the scheme. These were ultimately aimed at reducing the cost of the scheme and therefore the level of funding to authorities, including scaling back the number of years that payments would be received from six to four by 2018/19, as well as the introduction of a baseline at 0.4%. The Government has undertaken further consultations in 2017 and 2018 in order to increase the baseline and reduce funding levels. Feedback from local authorities has meant that these proposals have not been implemented, with the Government adding £18m funding to maintain the current arrangements in 2019/20. The Council’s New Homes Bonus allocation for 2019/20 is favourable with an increase in properties on the list of 510, well above the average seen in the previous four years (413). **The net result is a cumulative payment of £1.8m in 2019/20, compared with £1.6m in 2018/19.**

6.3 There have been strong indications from Central Government that the scheme, in its current form, is unlikely to continue beyond 2019/20 which results in significant uncertainty for authorities in predicting resources in the medium term. With this is mind, the proposals within the Medium Term Financial Strategy continue to assume that only 65% (£1.2m) of the cumulative allocation is built into the base budget for 2019/20, capped at £850k for 2020/21 and beyond. It is proposed to continue the approach to utilise the remainder towards reducing the underlying need to borrow, which will deliver ongoing savings to the revenue budget (£21k per annum).

7. <u>Business Rates Retention</u>

7.1 The business rates retention (BRR) scheme came into effect from 1st April 2013 and forms a principal element of local government funding. This provides local authorities with a direct financial benefit from economic growth, but also exposure to financial risk as a consequence of economic contraction. As detailed above, the Council is no longer in receipt of Revenue Support Grant, therefore the settlement contains the baseline funding (£3.148m) for the BRR Scheme.

7.2 A key determinate of local government funding is the actual business rates collected. Income above or below the expected level of business rates impacts on locally retained income. Under the mainstream system there is a safety net built into the scheme to ensure that no authority’s income falls below a set level, for East Staffordshire this would be set at set at £2.991m. Likewise there is levy payable on any business rate growth above the baseline, for East Staffordshire this would be set at 50%. However, the Council has been granted business rates pilot status for 2019/20 and this is outlined in more detail below.

7.3 The Government has previously announced that it intends to move to a system based on 75% retention of business rates by 2020/21, alongside the planned 2020 business rates reset. There will still need to be a system to re-allocate funding within the sector, with some existing grants rolled into business rates and potentially further responsibilities devolved in order to make this feasible. There have been a number of consultations and working groups taking place during the course of 2016/17 to 2018/19 in order to develop the revised scheme and this is expected to continue into 2019/20. At this stage it is not clear what the design of the new scheme will look like and the consequential implications. Members will be updated as the proposals evolve.

7.4 The table below provides a breakdown of the forecast business rates income built into the MTFS for 2019/20*:*

Table 4 : Retained Business Rates	2019/20 £000
Forecast Net Business Rates	52,802
Central Government Share (25%)	(13,200)
Major Preceptors Share (35%)	(18,481)
ESBC Share (40%)	21,121
Section 31 Grants	1,573
Less Tariff	(18,610)
Retained business rates (pre levy)	4,084
Section 31 Grant (RPI cap)	82
Provision for Contribution to GBSLEP	(468)
Volatility Provision	(246)
Retained Business Rates	**3,452**
Baseline	**3,148**
Safety Net	**2,991**

7.5 It is apparent that at both a local and national level there is a significant amount of volatility within the business rates scheme, largely arising from the level of reliefs and appeals which can have a significant impact on the business rates collected. The Council has established a business rates reserve in order to manage this volatility.

7.6 As set out above, business rates is due to be "reset" in 2020, with any achieved growth above the baseline potentially being re-distributed across the sector. It is therefore crucial that the authority takes a prudent approach and is not exposed to a "cliff edge" in relation to the forecast business rates income being built into our financial plans. With this in mind, the proposals within this strategy assumes funding from 2020/21 in line with the original multi-year settlement – excluding any retained growth.

Business Rates Pilot/ Pooling 2019/20

7.7 There are a number of existing pilots testing new business rates arrangements ahead of the roll out in 2020/21. The Government once again invited bids to become pilots from all other local authorities for 2019/20. The principal benefit from being a pilot is the retention of 75% of growth within the pilot area, as a result there was a lot of competition. **It is therefore very pleasing that East Staffordshire Borough Council, alongside the other Staffordshire authorities, was successfully granted pilot status. It is estimated that this is likely to result in windfall growth of at least £0.2m for East Staffordshire Borough Council, with an estimated total of £13.3m for authorities to support services across the County region.**

7.8 The Business Rates Pilot in 2019/20 requires the formation of a new Business Rates pool with the other Staffordshire Authorities. The existing business rates pool with Greater Birmingham and Solihull LEP will be dissolved at the end of 2018/19. Officers are currently in discussion with the GBSLEP in relation to future contribution arrangements.

7.9 Similar to the existing arrangements, the establishment of a pilot/ pool means that any levy on growth that would normally be payable to central Government can be retained locally. However, the pool must make its own arrangements for safety net payments to individual member authorities – the exception to this (a caveat of our local bid) being the NHS trust claim for mandatory business rates, should this be successful.

7.10 It should be noted that the governance arrangements for the Staffordshire pool establish that the authority will be no worse off from membership of the pilot/pool than the previous arrangement. However in the unlikely event that there are insufficient funds within the pool, the Memorandum of Understanding establishes that the upper tier authorities will transfer funds to meet any shortfall.

8. Revenue Budget

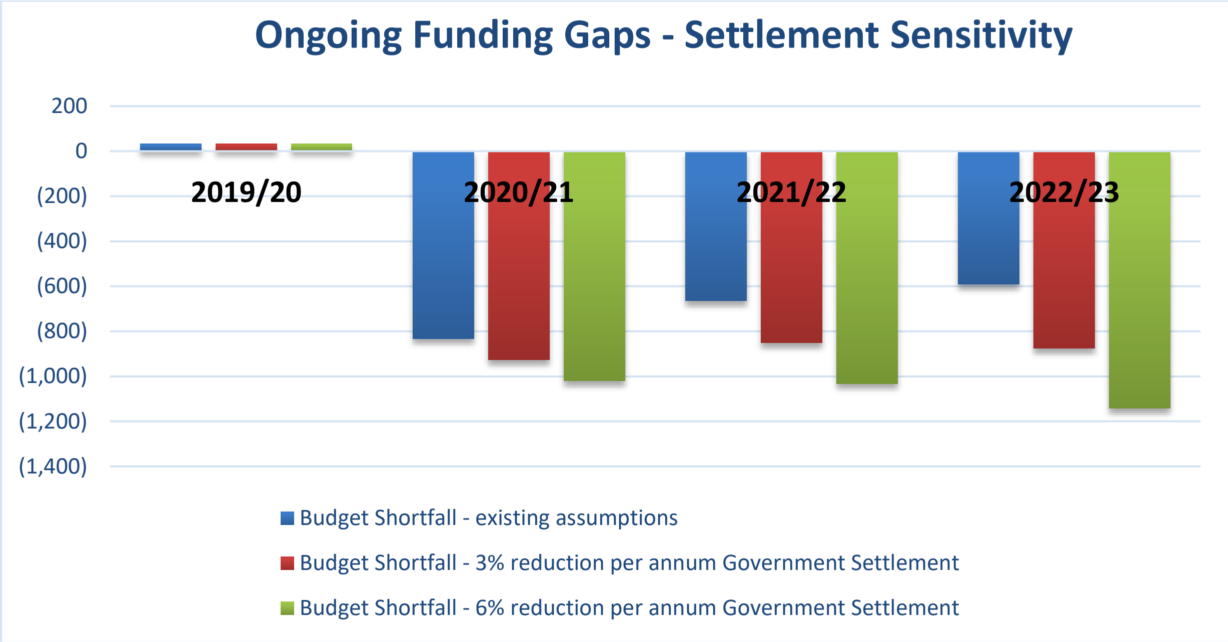
8.1 The revenue budget for the financial years 2019/20 to 2023/24 is summarised in the table below, with an expanded summary covering 2019/20 and 2020/21 at Appendix A. Further details of changes to individual service budgets can be found in the annual budget book. The budget takes into account the key assumptions set out in Section 10.

Table 5 : Budget Summary	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000
Total Revenue Budget	**10,617**	**11,214**	**11,410**	**11,712**	**11,983**
Retained Business Rates	(3,452)	(3,114)	(3,178)	(3,246)	(3,316)
Business Rates - Pilot Windfall	(212)	-	-	-	-
Council Tax Surplus	(96)	(85)	(85)	(85)	(85)
Trf to/(from) the New Homes Bonus Reserve	17	(856)	(695)	(629)	(523)
Special Expenses	(451)	(451)	(451)	(451)	(451)
Amount to be met from Council Tax*	**6,423**	**6,708**	**7,001**	**7,301**	**7,608**
Council Tax Increase (Band D)	£5	£5	£5	£5	£5

**also includes a 1.5% increase in the tax base*

8.2 The table above demonstrates that the budget has been balanced over the five year period by the use of the New Homes Bonus Reserve from 2020/21 onwards. Based on current assumptions the use of the reserve then starts to reduce as a result of the savings being delivered following the decision to award the management of the Council's Leisure services to an external provider, which will generate direct savings of £0.7m per annum on average over 10 years. Nevertheless, for 2020/21 and beyond, there is a great deal of uncertainty in relation to future funding levels due to the proposals for a significantly revised local government finance system and the expectation of a spending review in 2019. It is possible the resource estimates within these forecasts for 2020/21 and beyond could be more challenging.

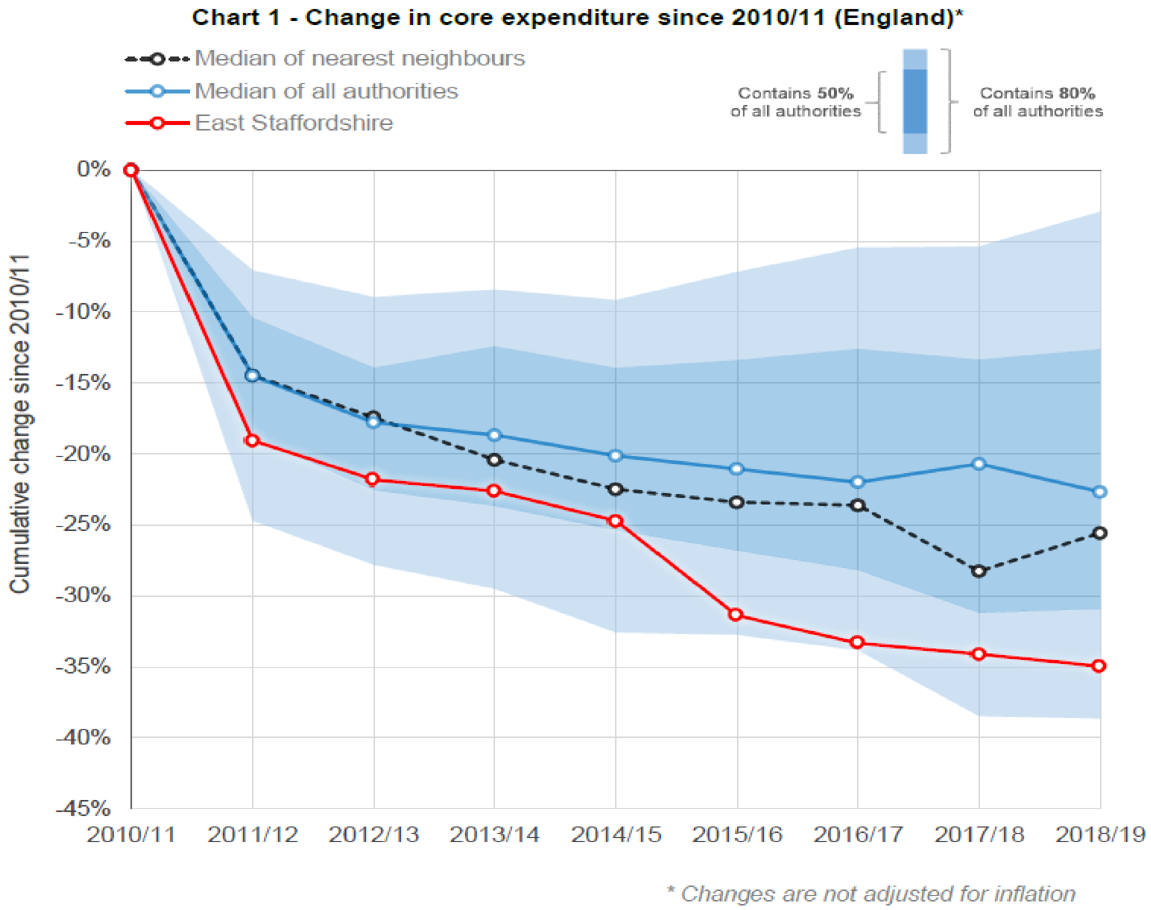
8.3 The use of the New Homes Bonus Reserve to balance the budget can only be on a temporary basis, as the nature of reserves are that they are one-off resources and should not normally be used to fund ongoing expenditure. The graph below demonstrates the extent of the ongoing savings requirement, together with the sensitivity in relation to various central government settlement scenarios to the end of the next spending review period. This emphasises that there is an ongoing requirement to identify and deliver savings.



8.4 The Council published its **efficiency plan** in September 2016, which established our approach to delivering the savings required to meet the unprecedented funding reductions that are set to continue until at least 2019/20. As a result significant savings have already been identified/delivered which have set the Council on a sustainable pathway. As we move forward the following key themes have been identified to deliver the savings needed in the medium term:

- Conducting a Smarter Waste Review;
- Maintaining an open mind to external partnership working, whenever the business case fully supports this approach;
- Seeking to support business and encourage economic development, generating additional income from retained business rates;
- Seeking to deliver new homes, generating additional new homes bonus funding;
- Keeping under review discretionary fees and charges;
- Seek to further utilise internal shared services; and
- A challenging and commissioning approach to procurement.

8.5 The Council has a successful track record of delivering savings, however opportunities for future savings are limited. The graph below is drawn from national data sets and compares the Council's reduction in expenditure levels with comparable authorities since austerity measures began. This highlights that the Council has consistently delivered higher reductions than the vast majority of comparable authorities.



9. Changes to Budgets 2019/20 onwards

9.1 The Council has published priority themes and these have been at the forefront of the budget setting process. Whilst in the current economic conditions growth has been severely restricted, the priorities set out in the corporate plan have been at the forefront during the process of identifying the necessary savings to balance the budget:

9.2 The Council conducted a **budget consultation during the autumn of 2018**. This enabled residents to tell the authority what they saw as budget priorities. The key findings from this survey are summarised as follows:

- Approximately 65% of those surveyed said the Council should protect services, even if council tax and fees for service users' increase.

- Those services which scored the highest in terms of being a priority for residents included, Waste Collection, Parks/Open Spaces and Street Cleaning. This was also reflected in the responses to the question regarding improving quality of life for residents.

- In respect of the services that the Council provides on a discretionary basis, residents indicated that Town Centre Regeneration, Indoor Leisure and CCTV should be protected, whilst Tourism, Communication, Mayoral Activities and Markets were those that were least desirable to be protected.

- In terms of generating additional income to support the budget, residents indicated that fees to service users could be increased in relation to the Brewhouse, Leisure and Parking.

Once again these findings have been taken into account when identifying the savings needed to meet both the centrally imposed budget reductions and also local pressures.

Revenue Growth

9.3 In the current climate revenue budget growth has been severely restricted and in reality limited to unavoidable areas. The most significant items of revenue budget growth are set out in the table below:-

Table 6: Revenue Growth – 2019/20

Portfolio	Description	£'000
Environment	Recycling credits – Staffordshire County Council Cost Shunt (rising to £394k by 2022/23)	97
	Public Conveniences – Outcome of Review	76
	Waste Recycling Costs – Contractor Dispute	22
	Staffing – re-alignment of the base budget	19
Regulatory Services	Car Parking Income – re-alignment of the base budget	41
Leader	Capital Financing – timing of capital receipts associated with debt repayment	50
	Finance Staffing (transfer from Housing and Homelessness Portfolio - Revenues)	33
	Standards – dealing with member complaints	12
	Total	**350**

Revenue Savings

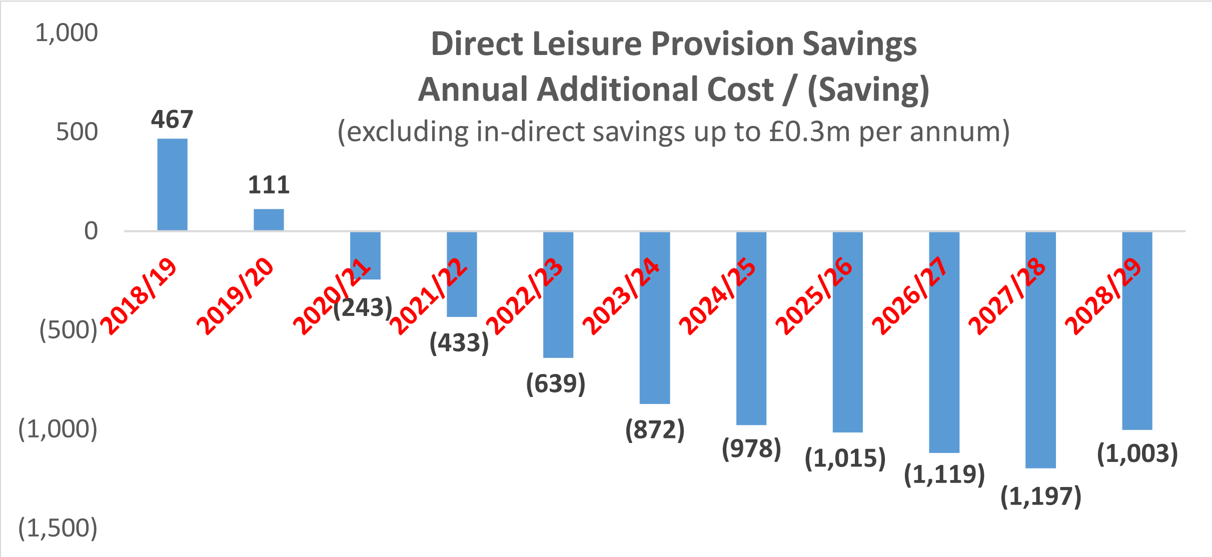
9.4 Given the scale of reductions announced in the 2016/17 to 2019/20 settlement, it was evident that significant budget reductions would continue to be needed for the foreseeable future. Considerable financial savings have been delivered in recent years predominately via a series of re-structuring exercises, a reduction of the senior management team, various procurement savings and internal shared services. These budget reductions were largely focused on ensuring that the Council's priority front line services were protected.

9.5 It is clearly good practice to provide the same or better service at a reduced cost, a principle which this Council has followed for many years. The table below is a list of significant saving initiatives (generally those £10k and above) and increased levels of income which have affected 2019/20 and future year's revenue budgets. **In total approximately 2 full-time equivalent posts (net of additions) have been removed from the draft estimates for 2019/20 compared to 2018/19**. However there are also 2 FTE temporary additions to Planning Staffing, which are being met from the ring-fenced planning reserve monies.

Table 7: Savings/additional income - 2019/20 onwards	£'000
Items £50k and above	
Leisure Procurement – Support Service and Corporate Management Savings	199
New Homes Bonus Allocation – higher than anticipated	144
Planning income – base budget re-alignment	126
Settlement – removal of negative RSG (para.5.2)	97
Investment income (net)	76
Items £20k to £49k	
Industrial Unit Income – Re-negotiated leases	41
Staffing Savings - Revenues, Benefits & Customer Contacts	33
Debt Repayment – Windfall New Homes Bonus	25
Merger of Councillors Community Fund and Neighbourhood Working Fund (revenue) into a single pot	22
New regulations – licensing of houses in multiple occupation	21
Planning Staffing – re-alignment of base	21
Historical Pension Contributions	20
Items £10k to £19k / other items	
Planning – Completion of record scanning	16
Bulky Waste Charges (Subject to Cabinet decision)	16
New Property Lease – Crossley House	16
HR Staffing – Apprentice recruited following retirement	12
Council Tax Surplus from prior year – higher than anticipated	11
Legal Cost Recovery – re-alignment of the base budget	10
Member Allowances – One less Deputy Leader	8
Total	**914**

9.6 Savings beyond 2019/20: Leisure Provision

In addition to the savings listed above, during the course of 2018/19 the Council awarded the contract to an external provider in relation to the provision of its leisure services. This has been reflected within the MTFS and will generate savings averaging £0.7m over the initial ten year period of the contract. The profile of the direct savings is shown within the graph below, demonstrating increased savings throughout the life of the contract. In addition to these direct savings, a number of indirect savings are anticipated from support services and corporate management, these amount to £0.2m in 2019/20 (as shown above) rising to £0.3m by 2021/22.



10. Assumptions

10.1 Key assumptions made in drafting the Medium Term Financial Strategy are:-

- Pay award for 2019/20 as agreed, 2.5% thereafter.
- Estimated superannuation increases following triennial revaluation,
- Staffing vacancy factor of 2% included.
- Formula funding as per settlement notification 2019/20.
- Retained business rates – baseline as per original multi-year settlement for 2020/21 onwards, including CPI.
- A 98% council tax collection rate
- Increased tax base of 1.5% per annum from 2019/20 onwards
- Interest rates on investments 0.9% (2019/20), 1% (2020/21), and 1.25% (2021/22).
- Council tax increases as per table 5 above.
- New Homes Bonus – 65% of estimate award included in base budget (2019/20), capped at £850k from 2020/21 onwards.

11. Risk Assessment and Management

11.1 The Council is committed to managing its exposure to risk. A key component of this is identifying risks as part of service planning (operational risks) as well as considering more strategic and corporate risks. In mitigation against these risks there may be financial implications: the more fundamental financial risks over the medium term are as follows. These have been highlighted Red/Amber/Green taking into account the scale of impact and the likelihood of occurrence.

- **Brexit / EU Referendum.** There is significant uncertainty surrounding the UK's exit from the EU on 29th March 2019 and the resulting implications. There are a number of risks associated with the outcome of this process which could impact on the Medium Term Financial Strategy in both the short, medium and long term. These include a number of risks which are linked to the economy, interest rates, economic impact on local levels of income such as car parking, planning and business rates, together with demand for local council tax support and homeless support, as well as the long term impact on the pension fund and asset values. In the short term the Council has set aside £0.2m within reserves to deal with any negative financial impact during the course of 2019/20, in the medium to long term the financial risks are mitigated to some extent by setting prudent budgets.

- **Formula Central Government Funding**. The provisional settlement covering the next year provides only very short term certainty. For 2020/21 and beyond, the Government is currently undertaking a needs based review of funding levels alongside the implementation of the revised 75% locally retained business rates scheme. The next spending review will also take place in 2019 and this will influence resource availability for the sector. When combined these factors represent a significant risk to the authority and the sustainability of existing services going forward.

- **New Homes Bonus**. The government have provided a strong indication that the existing New Homes Bonus Scheme will not continue beyond 2019/20. There is however uncertainty in relation to whether or not the government will continue to honour legacy payments, which are due to continue until 2022/23. In addition to which indications suggest that the scheme will be replaced with an alternative incentive scheme, reflecting that generating new homes is a key government policy. However, what shape this will take and how this will impact on funding is unknown. With these uncertainties in mind, we have only built into our base budget 65% of the projected allocation for 2019/20 (£1.1m), capped at £850k for 2020/21 and beyond.

- **Business Rate Retention Scheme**. As set out within Section 7 of the report the Council is potentially exposed to the risk of reduced income levels as a consequence of business rates contraction. As well as economic growth or contraction, there are a number of other factors that can impact on the business rates collected, including the number and level of mandatory and discretionary reliefs and also valuation appeals. Due to the safety net built into the scheme these risks are limited to £0.5m for 2019/20. This has been considered as part of the reserves strategy, with a specific reserve to deal with business rates volatility. The business rates revaluation came into effect from April 2017, together with a new system of appeals. This may also have an impact on locally retained income, for example it is very difficult to predict the timing and extent of any appeals against the new list, particularly as there continues to be a great deal of uncertainty surrounding the new appeals system. Finally, the current business rates retention scheme is due to be reset for 2020/21, alongside the move to a scheme whereby 75% is retained by local government.

  The table below sets out the degree of sensitivity to changes to these key areas of funding:

Table 8: Sensitivity Analysis Every 5% reduction in income compared to the 2019/20 estimate	
Income Stream/Source	**£'000**
Business Rates (Safety net)	461
Government Finance Settlement	157
New Homes Bonus	91
Fees and Charges Income	215

- **Income Generation**. The authority generates a substantial amount of income from services such as planning, building consultancy, markets, recycling, and parking. We have seen in recent years that the economy and other factors such as the weather can have a significant impact on the levels of income generated, which could have a negative impact on the budgets. This is mitigated to some extent by adopting a prudent approach to budget setting and also routine and robust risk based budget monitoring throughout the year. However, as set out above, the authority has set aside a sum of £0.2m in 2019/20 to mitigate against the risk associated with Brexit, including a shortfall in service income levels.

- **Capital Plans/Aspirations.** Whilst provisional funding has been allocated towards projects at the Washlands and the Regeneration of Public Realm at Station Street, the progression of these schemes is subject to a number of factors. Full business cases need to be developed in which affordability and value for money will be key considerations, together with the availability of match funding.

- **Costs Passed from Other Public Bodies.** This extended period of austerity is having a significant impact on all public bodies. This can on occasion lead to decisions being made by one organisation in order to reduce their costs having either an indirect or direct consequences in another part of the sector. Specific risk areas identified include the government's implementation of **Universal Credit** as well as the introduction of the **Homelessness Reduction Act** and **recycling credits** which are administered by Staffordshire County Council.

- **Housing Growth**. The Borough Council has seen significant housing growth in recent years and this is likely to continue. Whilst housing growth generates additional revenue from council tax receipts and new homes bonus, this also generates additional expenditure to deliver services to these households. Whilst we have recently strengthened our Waste Collection Service to support this additional growth, in the medium to long term further pressures are likely to arise from continued growth.

- **Local Council Tax Support.** From April 2013 the Local Council Tax Support Scheme came into effect. There are a number of risks associated with this, including the extent of any new applicants and over the medium to long term, changes in demographics. The extent of this risk for the Borough Council is limited to approximately 12%, being our share of the overall Council Tax bill. Levels of Council Tax Support have reduced in recent years and the provision for this, built into the tax base, has been made on a prudent basis.

- **Capital Receipts.** The revenue budget assumes savings of £100k in 2019/20 rising to £150k in 2020/21 from a reduction in the underlying debt by utilising capital receipts from the sale of assets already approved. Should these receipts not materialise within the timescales anticipated an in-year cost pressure would need to be managed.

- **Waste Management**. There are currently significant challenges in the waste industry which could potentially result in increased cost pressures for the Council in the medium term. These pressures include an ongoing dispute with an existing contractor and potential changes imposed by central government.

- **Interest Rate Movements**. Predicting interest rate movements over the coming period is a highly uncertain business, particularly in light of the current uncertainty surrounding the UK's exit from the EU. Indeed it is possible, that base rates will have changed between the writing of this report and the holding of this meeting. However the authority has taken a balanced approach to setting interest budgets.

- **Pay Awards.** Whilst the pay award for 2019/20 has already been agreed, the budget assumes increases of 2.5% for 2020/21 onwards. For every 1% above this offer awarded there is an additional cost of £0.1m per annum.

- **Pension Fund.** The triennial review of the council's pension fund took place as at March 2016 and this is reflected within the budgets to 2019/20. In the medium/long term there are a number of factors that can have a significant impact on future pension contribution levels, including the performance of the economy, life expectancy levels and fund membership numbers. The medium term financial strategy makes provision for estimated increased contribution levels up to 2023/24 in line with the expected outcome of the next valuation.

- **VAT Partial Exemption De-minimus**. The authority is limited to the extent that it can recover VAT in relation to exempt activities, such as Brewhouse and lettings. The decision associated with the procurement of a leisure provider and subsequent option to tax the sites, means that this risk is much lower than in previous years.

11.2 The above risks and mitigating actions have been taken into account in reaching a view on acceptable levels of general fund reserves.

12. Special Expenses

12.1 Special expenses are reviewed regularly to facilitate cost recovery. The level of increase for each parish is being limited to a maximum of 3.1%, reflecting annual inflation costs.

13. The Capital Programme and the Prudential Code

13.1 The Council has identified potential capital resources in the form of grants, receipts and revenue funding in the region of **£8.6m** available to fund capital proposals, however a large proportion of this funding (£5.9m) is subject to the completion and receipt of funds in relation to land sales. This also includes £0.9m in windfall business rates growth income which it is proposed to transfer to capital whilst still leaving a suitable sum as a provision for the risk associated with business rates.

13.2 The following schemes are proposed to be taken forward at this stage (with further details of the Capital Proposals and financing can be found at Appendix C – Asset Management and Capital Strategy 2019/20):

Existing Commitments:

- The final year of the current **Neighbourhood Working Scheme (£0.1m);**
- **Repayment of Historical Debt,** which will reduce the costs of servicing this debt to the revenue budget and help to protect frontline services **(£3.8m**);

Proposals for 2019/20 and beyond

- A provisional allocation **(£1.2m**) towards enhancement at the **Washlands**, subject to a full detailed business case, confirmation of match funding and the receipt of funding from the sale of the Bargates site *(Council December 2018)*;
- Capital Support of up to **£1m** for the **Leisure Development** following the transfer of leisure provision to a third party provider. This supports the delivery of revenue budget savings, with prudential borrowing being utilised and the associated costs being met from the savings during the period of the contract;
- A provisional allocation of **£1.2m - £1.4m** in relation to the **Regeneration of Public Realm at Station Street, Burton**. The feasibility study is nearing completion and funding is subject to a full business case being brought forward to full Council. It is proposed that this be met from a combination of the remaining growth point capital funding (£0.8m), with the remainder from the windfall business rates growth income;
- **Departmental Capital Bids totalling £0.1m** in relation to mandatory works at Canal Street industrial units, new microphone equipment, a replacement multipurpose vehicle at the Millers Lane Depot and Street Cleaning software in order to maximise efficiencies and minimise cost pressures.

Ongoing Proposals

- Supporting communities through **Disabled Facilities Grants,** with this being funded via the Better Care Fund (assumed award of **£0.9m**);

13.4 There is a link between the capital programme and the Council's MTFS. Two issues arise:-

- Capital schemes can have direct revenue consequences – for example a new property will impact on business rates, insurance, utility costs and staffing or new infrastructure or equipment could result in additional maintenance costs. This can be in the short, medium and long term, and

- The funding of the capital scheme will affect the revenue budget whether by incurring borrowing costs or by losing investment interest on capital receipts used to finance capital expenditure.

To the extent that it is currently feasible the prudential indicators illustrate the impact of capital on revenue and these are set out within the Treasury Management Strategy. Where proposals are still at the feasibility stage it has not been possible to fully cost the impact on the revenue budget. These proposals are therefore subject to a full detailed business case being presented, including the impact on the revenue budget before they can progress.

13.5 Members will recall that the Local Government Act 2003 introduced the financial regime for local authority capital expenditure. The system is based on self-regulation with freedom to invest, provided the programme is affordable, prudent and financially sustainable. The requirements set out within the Prudential Code and revised investment guidance issued by the Ministry of Housing, Communities and Local Government have been enhanced during 2018/19 as a result of commercial activities being undertaken in some parts of the sector. The Council has continued to produce the annual Capital Strategy, whilst this has been enhanced, the Council does not have any existing commercial properties/investments funded from prudential borrowing and there are currently no proposals to do so.

13.6 The Treasury Management Strategy provides further information on the capital programme and its impact upon the prudential indicators. The Council's underlying need to borrow for capital purposes (the Capital Financing Requirement) is a key indicator of prudence. When compared with the estimated external debt it ensures that, in the medium term, the Council is borrowing only for capital purposes. The capital financing requirement is due to reduce in the medium term as a result of the annual statutory and approved voluntary repayments – although as outlined above the capital expenditure (£1m) in relation to the Leisure Development is being funded from prudential borrowing.

13.7 Historically the Council's level of external debt has been relatively high in comparison to neighbouring authorities. In recent years the council has taken steps to improve this by adopting the approach of utilising windfall monies from New Homes Bonus to support a reduction in the underlying debt and reduce the cost to the revenue budget. As well as the existing commitment to utilise £3.8m of capital receipts to repay debt, the Medium Term Financial Strategy proposes to continue this approach by utilising windfall revenue from New Homes Bonus (£0.5m), to support the reduction of debt costs in 2019/20. In addition to which the Council has adopted a policy to set-aside 20% of all future capital receipts to support the repayment of historical debt. Continuing to reduce the underlying debt will enable savings to be maximised when the next tranches of external debt mature in 2025/26.

14. Reserves

14.1 The Local Government Act 2003 requires the Council's Chief Financial Officer to report on the robustness and sustainability of the estimates included in the budget and the adequacy of reserves for which the budget provides. The Council's policy is to carry out an annual review of all reserves as part of the budget preparation process. This includes identifying their purpose, and advising on the appropriate level for each reserve. This has been undertaken and Appendix B provides a summary of the reserves and their expected movements.

14.2 In the current climate, reserves can be viewed as an indicator of financial resilience. During the course of the year the council has compared its level of revenue reserves with those authorities within our nearest neighbour comparator group, as well as similar authorities within Staffordshire. Whilst this can only be viewed as a guide, due to each authority potentially having different risks to take into consideration, this indicated that our reserves are broadly in line with the average. As we move towards the new local government finance system in 2020/21 it is increasing important that the Council holds a suitable level of reserves to support sustainability.

14.3 Additionally, the Chief Finance Officer has reviewed the level of general reserves. The minimum advisable level of general reserves remains set at a level of £1.3 million, commensurate with significant business risks (as set out in section 11). This equates to just 3% of gross annual spending and takes into account specific reserves that have been established to mitigate against the most significant risks.

Table 9: Reserves Forecast

	General Reserves £000	2018/19 Earmarked Reserves £000	2019/20 Earmarked Reserves £000	2020/21 Earmarked Reserves £000
Estimated Opening Balance	1,278	12,650	12,723	11,904
Estimated use during the year	0	73	(819)	(1,480)
Estimated Closing Balance	1,278	12,723	11,904	10,424

14.4 Members will note that it is best practice to only use reserves is in support of capital and one-off revenue items. Reserves should not generally be used to support ongoing revenue expenditure.

14.5 The MTFS previously approved the use of the debt repayment reserve to support ongoing debt costs. This is being drawn down (£230k per annum) until 2025/26, at which point a large tranche of external debt will mature and deliver savings to the revenue budget. This debt will not need to be replaced as the Council has adopted a strategy of reducing the underlying need to borrow from, for example, capital receipts which also generates savings to the revenue budget by reducing the statutory minimum revenue provision charge to the budget.

14.6 Incorporated into the reserve forecast is the setting aside of £0.1m as a financial provision to support feasibility of capital projects. It is proposed that the allocation of this funding be delegated to the Leader of the Council in consultation with the relevant Deputy Leader and Chief Officer.

15. Financial Considerations

This section has been approved by the following member of the Finance Team: Lisa Turner.

15.1 This report deals solely with financial matters.

16. Legal Considerations

This section has been approved by the following member of the Legal Team: Angela Wakefield.

16.1 There are no direct significant legal issues arising from this report. This report complies with a number of statutory requirements.

17. Equality and Health

17.1 The Medium Term Financial Strategy is linked to Service Plans, which have been subject to Equalities Impact Assessments.

18. Human Rights

18.1 There are no Human Rights issues arising from this report.

19. Conclusions

19.1 Subject to the assumptions made and the risks identified the Chief Financial Officer's view is that the budget includes estimates, which can only be based on circumstances and events which are reasonably foreseeable at the time of preparing the budget. The budget has been prepared following extensive discussion between departments and leading Members. Subject to risks set out in this report, the Chief Finance Officer is of the view that the budget provides a robust basis for managing the Council's finances in the years 2019/20 to 2023/24.

19.2 The budget takes appropriate account of external demands, service pressures and affordability. It leaves the Council with an appropriate level of reserves.

19.3 The MTFS identifies ongoing savings requirements and uncertainties, specifically in relation to central funding allocations for 2020/21 and beyond. In line with the efficiency plan set out at Paragraph 8.5, members and officers will need to continue to identify more effective ways of service delivery to ensure the Council's financial sustainability in the medium to long term.

19.4 Both the Asset Management and Capital Strategy and the Treasury Management Strategy inform the MTFS and should enable the Council to move forward and meet its objectives.

19.5 Members note the extent of the financial challenge and associated risks ahead, and that the budget is balanced with the utilisation of reserves from 2020/21 onwards.

20. Recommendations to Cabinet

20.1 To recommend to Council that the Medium Term Financial Strategy 2019/20 to 2023/24, which includes the revenue budget, capital programme, and the asset management and capital strategy be approved; and that the level and appropriateness of reserves be noted.

21. Background papers

21.1 Provisional Local Government Finance Settlement 2019/20 – December 2018

21.2 East Staffordshire Borough Council – Efficiency Plan 2016/17 to 2019/20

22. Appendices

22.1 Appendix A: Detailed Budget Summary 2019/20 – 2020/21

Appendix B: Reserves Forecast

Appendix C: Asset Management and Capital Strategy 2019/20

APPENDIX A

MEDIUM TERM FINANCIAL STRATEGY
SUMMARY 2019/20 – 2020/21

Budget Summary	2019/20 Budget £'000	2020/21 Budget £'000
Service Budgets		
Arts, Brewhouse and Functions	378	388
Community and Open Spaces	1,319	1,323
Corporate Management Team	426	437
Corporate and Commercial	845	858
Cultural Services – Marketing	85	86
Enterprise	183	188
Environment	3,426	3,600
Environmental Health	481	502
Financial Services and Capital Financing	933	1,001
Housing	269	274
Human Resources, Payments & Pensions	1,800	1,970
IT and Printing	453	459
Legal and Asset Management	(421)	(413)
Leisure Services	1,049	639
Licensing and Enforcement	93	100
Markets	(11)	(8)
Planning	32	50
Revenue, Benefits and Customer Contacts	372	483
Corporate/Contingencies Budgets		
New Homes Bonus Grant (Section 6)	(1,190)	(850)
Parish Council Support Grant	59	59
Apprentice Levy	21	21
Other Corporate Budgets	15	47
Total Revenue Budget	**10,617**	**11,214**
Retained Business Rates	(3,452)	(3,114)
Business Rates Pilot - Windfall	(212)	-
Share of Council Tax Surplus	(96)	(85)
Support (from)/to New Homes Bonus Reserve	17	(856)
Net Revenue Budget	**6,874**	**7,159**
Special Expenses	(451)	(451)
Amount to be raised by Council Tax	**6,423**	**6,708**
Council Tax Increase (Band D)	**£5 or 3%**	**£5**