EAST STAFFORDSHIRE BOROUGH COUNCIL

REPORT COVER SHEET

Title of Report:	Medium Term Financial Strategy 2020/21 – 2024/25
Meeting of:	Cabinet
Date:	17/2/2020
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: 24th February 2020

TITLE:	Medium Term Financial Strategy 2020/21 – 2024/25
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 2020/21 to 2024/25. 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 2020/21, 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 2020/21 was made in late December 2019. This follows an unprecedented period of central funding reductions to local authorities. East Staffordshire Borough Council has seen a 78% or £6.4m reduction in core settlement funding on a like for like basis between 2010 and 2019. Key points from the settlement are as follows:

- For East Staffordshire the core settlement has resulted in a cash increase of 1.6% or approximately £0.05m for 2020/21.
- Confirmation of the removal of the proposed (£97k) business rates tariff adjustment (more commonly known as Negative RSG);
- New Homes Bonus (NHB) funding has increased due to strong local housing growth by £0.6m or 34% to £2.45m. However a significant Government Policy change in relation to NHB legacy payments in respect of the 2020/21 allocation means a loss of funding to the Council of £2.6m over the three year period 2021/22 to 2023/24.
- The Council, alongside other Staffordshire Authorities, has agreed to roll forward the existing Business Rates Pool (based on the 50% scheme) This results in an estimated one-off windfall being £0.2m for East Staffordshire Borough Council, and in total £5.1m to support wider services across the County as a whole.

Further details of the settlement can be found at Section 5 of the report.

2.3 Our continued strategic approach to financial planning has enabled us to once again respond to the challenging environment 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 2021/22 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 2021/22 onwards. The government is due to undertake the latest spending review during 2020, 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 were due to come into effect from April 2020 and have now been deferred until April 2021:

- The fair funding review announced in 2016 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 is due to move from 50% to 75% being retained locally, potentially resulting in some significant modifications to the scheme; and finally
- The New Homes Bonus Scheme will not continue in its current form beyond 2020/21.

2.5 The potential impact of these changes represents significant uncertainty in terms of the financial resources available from 2021/22 onwards. With this in mind, the proposals within this strategy scale back core funding levels to the funding settlement (taking into account negative RSG) from 2021/22 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 New Homes Bonus Scheme, only 50% of the funding has been built into the base budget for 2020/21, with the remainder being treated as windfall. For future years, the budget largely includes the legacy payments from the existing scheme (capped at £850k in line with previous practice). The MTFS assumes that the windfall element from 2020/21 of £1.2m be utilised to top up the New Homes Bonus Reserve. This enables the MTFS to be balanced from the reserve (in line with previous practice) over the 5 year period pending the outcome of the reforms to local government finance outlined in paragraph 2.4 above. 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 and uncertainties arising from central funding allocations, the authority also has significant ongoing local pressures amounting to approximately £0.7m in 2020/21. These pressures arise from a combination of issues, the most significant of which relating to the Waste and Recycling Service. 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 2020/21, which total in excess of £0.6m. In addition to which, the 12 month deferral of the local government finance reforms has enabled business rates growth and pooling monies together with New Homes Bonus funding amounting to £1m to be added back into the budget on a temporary one-off basis. Details of the most significant savings or increased income levels are detailed at paragraph 9.5 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 2020/21.

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 Disabled Facility Grants, a new small business fund, the creation of additional space at the Cemetery and funding towards enhancements at the Washlands (subject to business case) in partnership with the Environment Agency and the GBSLEP. There are also sums allocated to support a reduction in debt costs. A number of projects in the current capital programme will continue into 2020/21, including the Regeneration of Public Realm at Station Street. 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 Burton is one of a number of Towns across the Country that has been given the opportunity to submit proposals to Government for up to £25m of funding for regeneration as part of the Stronger Towns Fund. The Council is the lead authority, as such has received £162k of capacity funding and is working closely with partners and the Board to prepare a bid.

2.13 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 2021/22 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 £177.30 (Borough Council at Band D), a £5 or 2.9% increase on the 2019/20 level. A separate report will be on Council agenda for formal approval of the overall Council tax for 2020/21.

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.

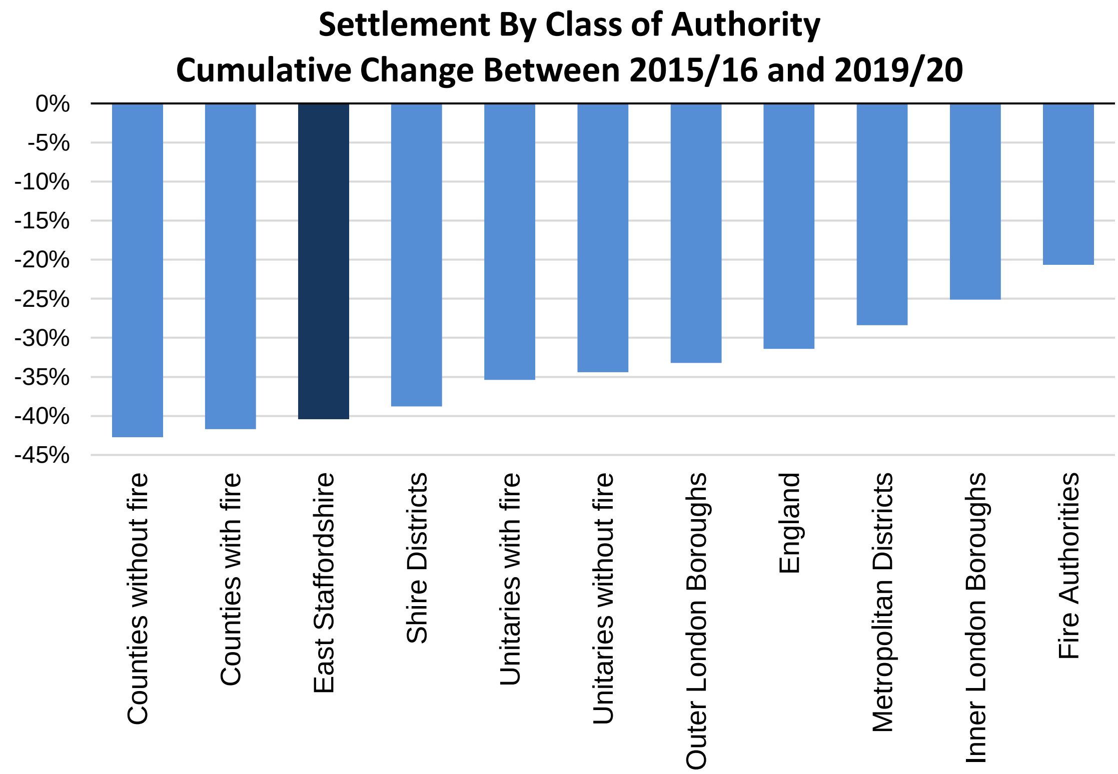
5. Central Government Funding Settlement

5.1 Since austerity measures began the Council has seen a reduction in settlement funding of 78% or £6.4m on a like for like basis between 2010 and 2019. It was originally anticipated that large scale reforms would be made to local government funding from 1st April 2020, which would incorporate the latest spending review. This has created a significant amount of uncertainty for local authorities and their ability to undertake robust medium term strategic and financial planning. However following a significant period of political uncertainty linked the national Brexit debate the Government announced in September 2019 that these reforms would be delayed until 2021/22.

5.2 The table below sets out the settlement, as announced in December 2019 - overall this results in a £0.05m or 1.6% increase in funding for 2020/21. Since 2019/20 the Council no longer receives any Core Revenue Support Grant from the Government, whilst it was originally due to be paying “negative RSG” (£97k) following consultation the government are once again proposing to fund this.

Table 1	Business Rates Baseline £m	**Formula Funding £m**	Increase £m	Increase %
2019/20	3.148	**3.148**		
2020/21	3.199	**3.199**	**0.051**	**1.6%**

5.3 In terms of background, the graph below compares the funding reductions during the period 2017/18 to 2019/20 between different classes of authority. The reduction for both East Staffordshire, Shire Districts 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.



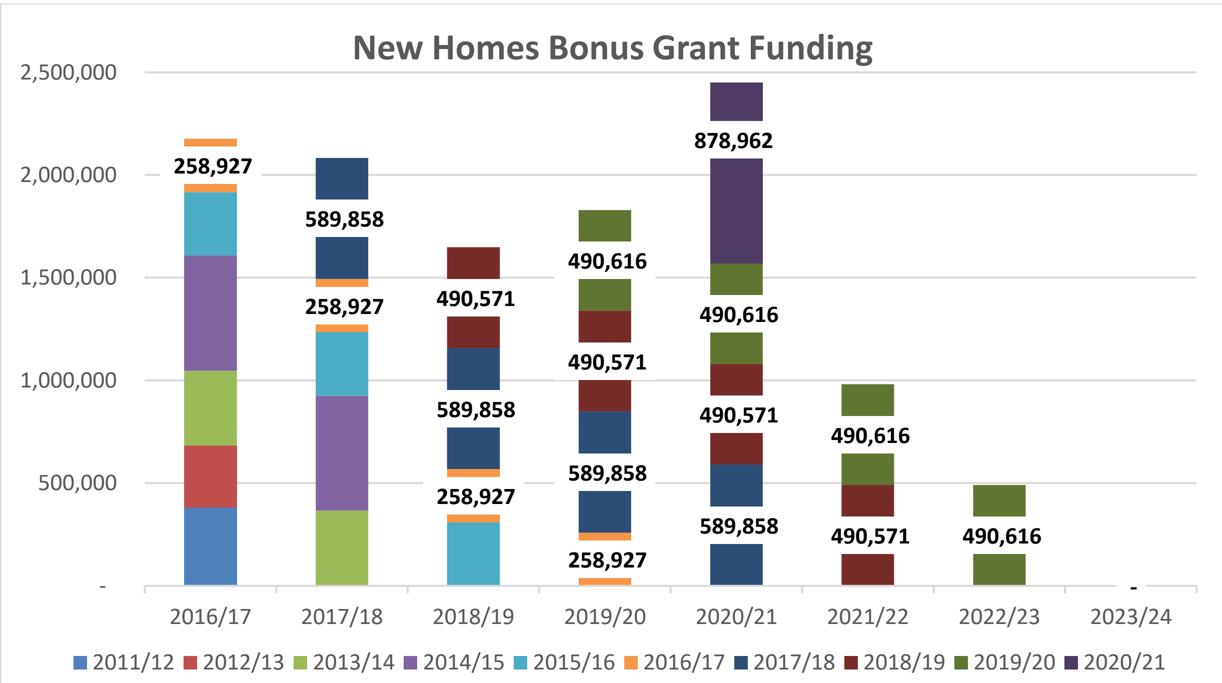
5.4 The Government have set the council tax referendum limit for lower tier authorities such as East Staffordshire at 2% or higher than £5 for a Band D Property. There is increased flexibility for upper-tier councils with responsibility for Social Care (2% plus a 2% Social Care Precept)

6. New Homes Bonus Scheme (NHB)

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 undertook further consultations in 2017 and 2018 in order to increase the baseline and reduce funding levels. Feedback from local authorities meant that these proposals were not implemented, with the Government adding £7m in additional funding to maintain the current arrangements in 2020/21.

6.3 The Council's New Homes Bonus allocation for 2020/21 is favourable with an increase in properties on the list of 796, well above the average seen in the previous years. **The net result is a cumulative payment of £2.4m in 2020/21,** compared with £1.8m in 2019/20. However the Government also announced that in respect of the in-year payment for 2020/21 (£0.879m) **no legacy payments** will be made**. This policy change means a loss of grant funding to the Council of £2.6m over a three year period.** The graph below sets our forecast NHB Grant funding based on current information:



6.4 The Government have set out that the NHB scheme, in its current form, will not continue beyond 2020/21 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 assume that only 50% (£1.2m) of the cumulative allocation is built into the base budget for 2020/21, capped at £850k for 2021/22. It is proposed to top up the New Homes Bonus Reserve with the windfall element (£1.2m), this will be on a temporary basis pending the outcome of the local government finance reforms and will enable a 5 year MTFS to be balanced from the reserve (in line with previous practice).

7. Business Rates Retention

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 (£3.199m) 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 £2.959m. Likewise there is levy payable on any business rate growth above the baseline, for East Staffordshire this is set at 50%. However, the Council has formed a Pool with Staffordshire Authorities and this is outlined in more detail at paragraph 7.7 below.

7.3 The Government has previously announced that it intends to move to a system based on 75% retention of business rates, which has now been deferred to 2021/22, alongside the planned 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 2019/20 in order to develop the revised scheme and this is expected to continue into 2020/21. 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 2020/21*:*

Table 4 : Retained Business Rates	2020/21 £000
Forecast Net Business Rates	53,121
Central Government Share (50%)	(26,561)
Major Preceptors Share (10%)	(5,312)
ESBC Share (40%)	21,248
Section 31 Grants	1,819
Less Tariff	(18,913)
Retained business rates (pre levy)	4,154
Section 31 Grant (RPI cap)	94
Levy to the Staffordshire Pool (Para. 7.8)	(478)
Volatility Provision	(246)
Retained Business Rates	**3,524**

Baseline	**3,199**
Safety Net	**2,959**

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. In previous years it has been possible to release funding from this reserve to support one-off initiatives, including the Improvements to Public Realm at Station Street. It is proposed to release £0.5m from this reserve in 2020/21 to top up capital resources and provide funding for the capital programme.

7.6 As set out above, business rates is due to be "reset" in 2021, 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 2021/22 in line with the original multi-year settlement – excluding any growth and including negative RSG.

Business Rates Pooling 2020/21

7.7 In 2019/20 the Council alongside the other Staffordshire Authorities was awarded business rates pilot status. The principal benefit from being a pilot was the retention of 75% of growth within the pilot area. The pilot was for 2019/20 only and the Government has not provided the opportunity for authorities to bid for another round of pilots, although existing pilots which are largely those linked to the Combined Authorities are set to continue.

7.8 In respect of 2020/21 the Council has taken the decision to roll forward the existing Staffordshire Pool based on the 50% retention scheme. This will allow the Pool to retain any levy payments that would otherwise be payable to Central Government. Under the Pooling arrangement 40% of the levy is retained by the authority with 60% treated as windfall, of which it is estimated that £215k would be distributed back to ESBC. Under this arrangement the Pool must make its own arrangements for safety net. Should any of the authorities within the Pool be in a safety net position the Council would need to contribute its share towards this in line with the agreement.

7.9 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 pool than the previous pooling arrangement with the GBSLEP.

8. Revenue Budget

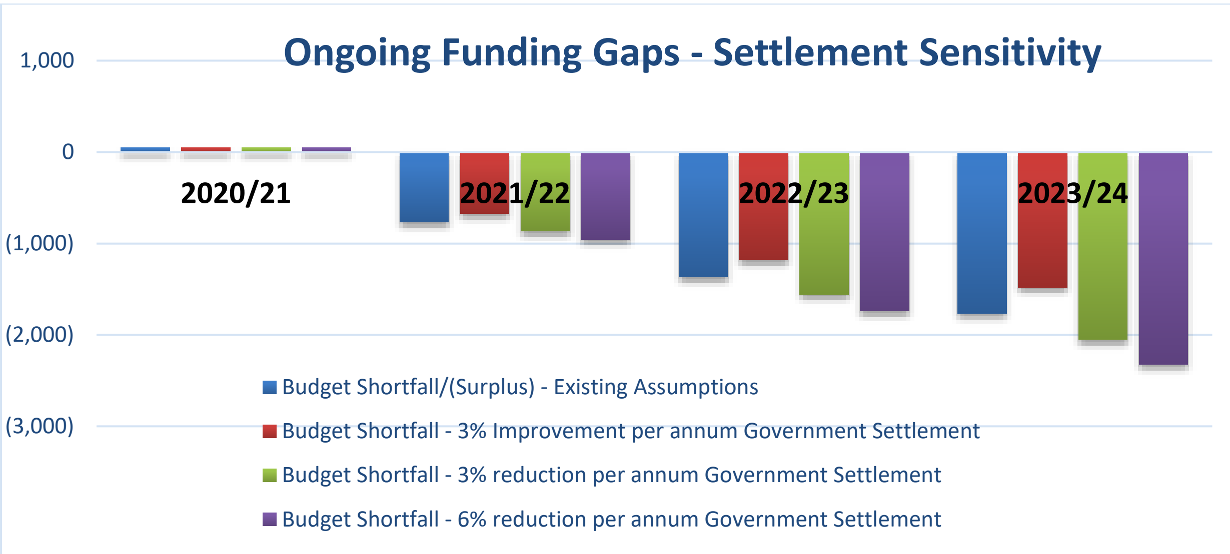
8.1 The revenue budget for the financial years 2020/21 to 2024/25 is summarised in the table below, with an expanded summary covering 2020/21 and 2021/22 at Appendix A. Further details of changes to individual service budgets can be found in the annual budget book. The budget takes into account the key assumptions set out in Section 10.

Table 5 : Budget Summary	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000
Total Revenue Budget	**11,024**	**11,549**	**12,508**	**13,286**	**13,475**
Retained Business Rates	(3,524)	(3,166)	(3,231)	(3,298)	(3,366)
Business Rates - Pool Windfall	(215)	-	-	-	-
Council Tax Surplus	(86)	(85)	(85)	(85)	(85)
Trf to/(from) the New Homes Bonus Reserve	60	(742)	(1,332)	(1,731)	(1,532)
Special Expenses	(453)	(453)	(453)	(453)	(453)
Amount to be met from Council Tax*	**6,806**	**7,103**	**7,407**	**7,719**	**8,039**
Council Tax Increase (Band D)	£5	£5	£5	£5	£5

**also includes a 1.5% increase in the tax base for 2021/22 onwards*

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 2021/22 onwards. 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 2020. It is possible the resource estimates within these forecasts for 2021/22 and beyond could be more challenging.

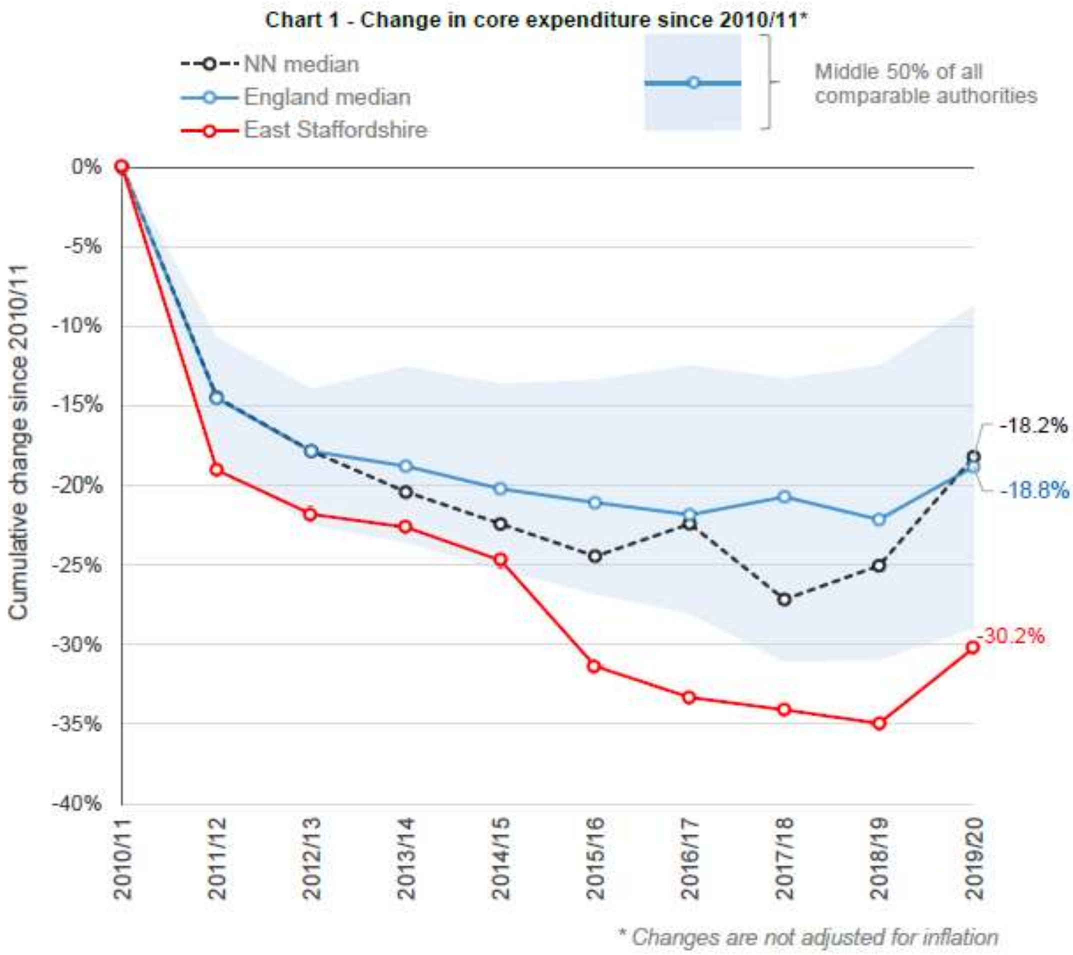
8.3 The use of the New Homes Bonus Reserve to balance the budget can only be on a temporary basis, as the nature of reserves are that they are one-off resources and should not normally be used to fund ongoing expenditure. The graph below demonstrates the extent of the ongoing savings requirement, together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



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. 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 and consider the potential to introduce a garden waste charging scheme;
- Reviewing the Brewhouse, Arts and Town Hall Service
- A review of the Markets Service
- Maintaining an open mind to external partnership working/shared services, 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, potentially 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/Pressures

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/income reductions are set out in the table below:-

Table 6: Revenue Growth/Pressures – 2020/21

Portfolio	Description	£'000
Environment	Recycling Income Levels – revised market prices and tonnage levels	124
	Waste Management – Staffing Pressures	85
	Housing Register – Increase due to Trent and Dove	35
	Waste Haulage and Fleet Contract Pressures	45
	Public Conveniences – Business Rates	10
Regulatory and Community Support	Car Parking Income – re-alignment of the base budget	90
	Car Parking – App Solution and Hand held devices	41
	Procurement – Cash Collection Contract	14

Leader	Investment Income – changes to the base rate expectations	42
	Borough Election – Increased contribution to reserve	15
Regeneration and Planning Policy	Land Charges – Net reduction in search fee income	11
Leisure, Culture and Tourism	Markets Income – Re-alignment of base	36
	Facilities – Energy Price Increases/Inflation	22
Corporate	Income Shortfall Contingency (One-off)	150
	Total	**720**

Growth/Pressures beyond 2020/21

9.4 In addition to the uncertainty in respect of central funding from 2021/22 onwards there are a number of cost pressures that have been incorporated into the budget for 2021/22 onwards, including:

- **Waste / Recycling Contracts** – There are a number of contracts that are scheduled for renewal within the medium term including the waste vehicle fleet and recycling contract. There have been a number of developments in the recycling industry since the current contract was awarded and there is a growing expectation of significant additional cost pressures in this area. Whilst significant growth has been incorporated within these proposals from 2022/23 this could potentially be significantly more challenging.

- **Pension Fund** – the triennial review has been undertaken as at March 2019 and resulted in increased pension contribution rates on average 2% per annum over the three year period. This is broadly in line with expectations within the current approved base budget. The Council proposes to make an upfront/advance lump sum payment in April 2020 of £4.5m covering the period 2020/21 to 2022/23, which means that contributions over the three year period are £0.3m lower than would have otherwise been the case.

Revenue Savings

9.5 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, a review of office accommodation, external provision of leisure services, 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.

9.6 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 2020/21 and future year's revenue budgets. In total approximately 3.2 full-time equivalent posts have been removed from the draft estimates for 2020/21 compared to 2019/20. However there are also 3 FTE additions, including Waste Management (2) to address the staffing pressures in this area and Licensing (1) to meet the demands of the 3/5 year renewals and funded from licensing fee income.

Table 7: Savings/additional income – 2020/21 onwards	£'000
Items £50k and above	
New Homes Bonus Allocation – Delay to Reforms (One-off)	410
Business Rates Growth – Delay to Reforms (One-off)	410
Business Rates Pool 2020/21 (One-off)	215
Car Parking – Increased Tariffs (Cabinet – October 2019)	127
Domestic Properties on tax base higher than anticipated	97
Revenues/Benefits and Markets – Staffing re-alignments	72
Re-allocate of planned debt repayment against the Leisure Borrowing	71
Items £20k to £49k	
Reprographics – Procurement/Business Change	35
National Graduate Trainee Position (Held in HR)	31
Corporate Training Budget – Maximising Apprenticeship Funding	30
Car Parking – Increased income from Season Tickets/Penalty Charges	25
Environmental Health – Staffing and Running Cost Savings	25
Items £10k to £19k	
Land Charges – Completion of Record Scanning	15
Housing Benefit Grant – Reduction less than anticipated	14
Corporate and Commercial – Staffing Re-alignment	12
Industrial Unit Income – Re-negotiated Leases	11
Finance – Appointment of Apprentice (one-off)	11
CCTV – Various Running Cost Savings	11
Leisure, Culture and Tourism – Various Running Cost Savings	11
Total	**1,633**

9.7 Other Savings included within the Base Budget: 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 already been reflected in the base budget (set in February 2019) and will generate savings of £0.9m on average per annum against the previous base budget, including indirect savings of £0.2m in relation to support services and corporate management.

10. Assumptions

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

- Pay awards - Average 2.5% (still subject to national negotiations)
- Pension increases following triennial revaluation,
- Staffing vacancy factor of 2% included.
- Formula funding as per settlement notification 2020/21, baseline funding level (including CPI increase and negative RSG) for 2021/22 onwards.
- A 98% council tax collection rate

- Increased tax base of 1.5% per annum from 2020/21 onwards
- Interest rates on investments 0.65% (2020/21), 0.85% (2021/22), and 1.10% (2022/23).
- Council tax increases as per table 5 above.
- New Homes Bonus – 50% of award included in base budget (2020/21), capped at £850k for 2021/22 and reduced to legacy amount of £490k in 2022/23.

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.

- **Formula Central Government Funding**. The provisional settlement covering the next year provides only very short term certainty. For 2021/22 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 and a business rates reset. The next spending review will also take place in 2020 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. The Council has taken a prudent approach to forecasting funding levels within this uncertain environment.

- **New Homes Bonus**. The government have indicated that the existing New Homes Bonus Scheme will not continue beyond 2020/21 and that legacy payments in relation to 2020/21 will not be made. 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 50% of the grant for 2020/21 (£1.2m), capped at £850k for 2021/22 and reduced to £490k by 2022/23 (being the final legacy payment).

- **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 £0.6m for 2020/21, plus any contribution required to meet safety net payments within the Staffordshire Pool. 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 some uncertainty surrounding the new appeals system. Finally, the current business rates retention scheme is due to be reset for April 2021, alongside the move to a scheme whereby 75% is retained by local government and a new valuation list. With these changes and risks in mind, the level of business rates assumed in the MTFS has been scaled back for 2021/22, removing existing growth.

- **Brexit / EU Referendum.** There continues to be significant uncertainty surrounding the UK's exit from the EU particularly in relation to the negotiation of the future trading relationship. There are a number of risks associated with the uncertainty and 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 a £150k contingency to deal with any negative financial impact on income streams during the course of 2020/21, in the medium to long term the financial risks are mitigated to some extent by setting prudent budgets.

- **Income Generation**. The authority generates a substantial amount of income from services such as planning, building consultancy, markets, recycling, the investment of cash balances 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 £150k in 2020/21 to mitigate against the risk associated with a shortfall in service income levels.

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 2020/21 estimate

Income Stream/Source	£'000
Business Rates (Safety net)	565
Government Finance Settlement	160
New Homes Bonus Grant	123
Fees and Charges Income	221
Investment Income (0.25% reduction in base rate)	92

- **Waste Management/Recycling**. There are currently significant challenges in the waste industry which are likely to result in significant cost pressures for the Council in the medium term. These pressures include a number of contracts that are due for renewal and potential changes imposed by central government as well as market price fluctuations and tonnage levels which can be impacted by weather conditions.

- **Costs Passed from Other Public Bodies.** The extended period of austerity had 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.

- **Pay Awards.** The budget assumes average pay increases of 2.5% for 2020/21 onwards, which is still subject to national negotiations. For every 1% above this offer awarded there is an additional cost of £0.1m per annum.

- **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 historically new homes bonus, this also generates additional expenditure to deliver services to these households. Whilst we have fairly 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.

- **Capital Plans/Aspirations.** The Council has a number of significant capital projects with the Capital Programme and as a result there is always a risk of cost increases above the allocated funding. This is largely mitigated by the robust project management and monitoring arrangements in place.

- **Capital Receipts.** The revenue budget assumes savings of £100k 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.

- **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.

- **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 and subsequent trade negotiations. 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.

- **Pension Fund.** The triennial review of the council's pension fund took place as at March 2019 and this is reflected within the budgets to 2020/21 to 2022/23. 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 2024/25 in line with the estimated 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, 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 2.2%, 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 receipts and windfall revenue funding in the region of **£8.8m** available to fund capital proposals, however a large proportion of this funding (£5.5m) is subject to the completion and receipt of funds in relation to land sales. This also includes £0.5m in windfall business rates growth income and £0.4m from the 2018/19 revenue surplus which it is proposed to transfer to capital.

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 2020/21):

Existing Commitments:

- **Regeneration of Public Realm – Station Street**, Burton **(£1.3m** to be met from existing resources)

- **Repayment of Historical Debt,** to be met from future capital receipts which will reduce the costs of servicing this debt to the revenue budget and help to protect frontline services **(£3.7m**).

Proposals for 2020/21 and beyond

- A provisional allocation **(£1m**) towards enhancement at the **Washlands**, subject to a full detailed business case being approved by Cabinet. An additional £3m of funding has been awarded by the GBSLEP towards both enhancement works (£1m) and (£2m) in relation to the flood defence works being undertaken by the Environment Agency;

- **Small Business Fund (£0.1m)** to provide support to small businesses throughout the year;

- **Departmental Capital Bids totalling £0.3m** in relation to mandatory works at various council property following the outcome of condition surveys, the provision of additional capacity at the Cemetery and replacement Cisco Switches to ensure ICT compliance.

Ongoing Proposals

- Supporting communities through **Disabled Facilities Grants,** with this being funded via the Better Care Fund (assumed award of **£1.02m**);

13.3 Burton is one of a number of towns across the Country that has been given the opportunity to submit proposals to Government for up to **£25m** of funding for regeneration as part of the **Stronger Towns Fund**. The Council has received £162k of capacity funding to work with partners to prepare a bid. Members will be updated as this process evolves.

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.

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. There is an existing commitment to utilise £3.7m of capital receipts to repay debt. 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. This is consistent with the Resilience Index, recently published by CIPFA. 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 2021/22 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 whilst this is low in comparison to our nearest neighbours, however it takes into account specific/earmarked reserves that have been established to mitigate against the most significant risks facing the authority.

Table 9: Reserves Forecast

	General Reserves £000	2019/20 Earmarked Reserves £000	2020/21 Earmarked Reserves £000	2021/22 Earmarked Reserves £000
Estimated Opening Balance	1,278	13,679	13,804	13,452
Estimated use during the year	0	125	(352)	(1,202)
Estimated Closing Balance	1,278	13,804	13,452	12,250

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 and windfall new homes bonus funding. This 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 £0.150m as a financial provision to support feasibility of capital projects and/or economic regeneration activities. 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 Chief Officers, Managers 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 2020/21 to 2024/25.

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 2021/22 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 temporary utilisation of reserves from 2021/22 onwards.

20. Cabinet Recommendation

20.1 To recommend to Council the approval of the Medium Term Financial Strategy 2020/21 to 2024/25, which includes the revenue budget, capital programme, and the asset management and capital strategy; and that the level and appropriateness of reserves be noted.

Council Recommendation

20.2 To approve the Medium Term Financial Strategy 2020/21 to 2024/25, which includes the revenue budget, capital programme, and the asset management and capital strategy; and that the level and appropriateness of reserves be noted.

21. Background papers

21.1 Provisional Local Government Finance Settlement 2020/21 – December 2019

22. Appendices

22.1 Appendix A: Detailed Budget Summary 2020/21 – 2021/22

Appendix B: Reserves Forecast

Appendix C: Asset Management and Capital Strategy 2020/21

MEDIUM TERM FINANCIAL STRATEGY SUMMARY 2020/21 – 2021/22

Budget Summary	2020/21 Budget £'000	2021/22 Budget £'000
Service Budgets		
Arts, Brewhouse and Functions	393	408
Community and Open Spaces	1,401	1,411
Corporate Management Team	438	448
Corporate and Commercial	875	886
Cultural Services – Marketing	86	87
Enterprise	116	120
Environment	3,887	4,050
Environmental Health	470	491
Financial Services and Capital Financing	966	950
Housing	311	316
Human Resources, Payments & Pensions	1,913	2,054
IT and Printing	425	427
Legal and Asset Management	(430)	(422)
Leisure Services	664	506
Licensing and Enforcement	84	92
Markets	15	18
Planning and Land Charges	46	62
Revenue, Benefits and Customer Contacts	417	470
Corporate/Contingencies Budgets		
New Homes Bonus Grant (Section 6)	(1,255)	(850)
Income Shortfall Contingency	150	-
Parish Council Support Grant	59	59
Apprentice Levy	21	21
Other Corporate Budgets	(28)	(55)
Total Revenue Budget	**11,024**	**11,549**
Retained Business Rates	(3,524)	(3,166)
Business Rates Pilot - Windfall	(215)	-
Share of Council Tax Surplus	(86)	(85)
Support (from)/to New Homes Bonus Reserve	60	(742)
Net Revenue Budget	**7,259**	**7,556**
Special Expenses	(453)	(453)
Amount to be raised by Council Tax	**6,806**	**7,103**
Council Tax Increase (Band D)	**£5 or 2.9%**	**£5**