

Subject:	Medium Term Financial Strategy Update	Status:	For Publication
Report to:	Cabinet	Date:	10 th October 2018
Report of:	Head of Finance	Portfolio Holder:	Resources
Key Decision:	<input checked="" type="checkbox"/> Forward Plan <input checked="" type="checkbox"/>	General Exception <input type="checkbox"/>	Special Urgency <input type="checkbox"/>
Equality Impact Assessment:	Required:	Yes/No	Attached: Yes/No
Biodiversity Impact Assessment	Required:	Yes/No	Attached: Yes/No
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1.	RECOMMENDATIONS
1.1	Members note and consider the contents of the report.
1.2	Members make further recommendations to the report and/or approve the contents and strategic direction of the report.

2. PURPOSE OF REPORT

2.1 The purpose of the report is to update Members on any changes to the Council's Medium Term Financial Strategy (MTFS) assumptions and their impact over the medium term to the Council's forecast funding gap (ie annual financial resources compared to annual expenditure).

3. CORPORATE PRIORITIES

3.1 The matters discussed in this report impact directly on the following corporate priorities:

- **A clean and green Rossendale:** our priority is to keep Rossendale clean and green for all of Rossendale's residents and visitors, and to take available opportunities to recycle and use energy from renewable sources more efficiently.
- **A connected and successful Rossendale that welcomes sustainable growth:** our priority is to ensure that we are well connected to our residents, key partners and stakeholders. We want to make the most of every pound we spend and we are always looking for new and innovative ways to make the resources we do have, work harder for us.
- **A proud, healthy and vibrant Rossendale:** our priority is to ensure that we are creating and maintaining a healthy and vibrant place for people to live and visit.

4. RISK ASSESSMENT IMPLICATIONS

4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:

- Financial monitoring of the MTFS and General Fund service departments focuses on the key risk areas of: employee costs, income, implementation of agreed budget savings, emerging issues and opportunities and in particular service department net expenditure and emerging issues.
- Budget setting and the implications for future years is now treated as an integral part of financial monitoring during the current year and the impact of variances being reported will be assessed when officers are considering the detailed 2019/20 budgets in the coming months and future MTFS updates.
- The Council must explore ways of bridging its forecast c.£1m annual funding gap.

Amongst other things this may include becoming more commercially aware and mature by aiming to grow its resources alongside challenging its cost base and day to day expenditure.

- Any continued austerity planning by Central Government resulting in a further reduction of central government resources, its plans for the local retention of 75% of the business rates from 2020/21 onwards, the current fair funding review and any potential implications of Brexit. There remains much uncertainty for the future of local government financing.
- Implications from the Governments latest consultation on the 2019/20 finance settlement: <https://www.gov.uk/government/consultations/local-government-finance-settlement-2019-to-2020-technical-consultation>
- The other internal departmental operational assumptions in relation to core costs, revenue growth, etc.
- The Council has finite reserves. Some are specifically identified to support the funding gap over the short term (the Transitional reserve); other reserves set aside are earmarked for specific projects. The Transitional reserve based on par 5.3 below will bridge only the 2 years 2019/21.
- It is a legal duty for this Council to set fully funded budget each year.

5. BACKGROUND AND OPTIONS

5.1 The Council last updated its MTFS in February 2018 as part of its budget setting. That MTFS at that time indicated a future annual funding gap of c £1m pa and the use of £796k of reserves to ensure a balanced budget for 2018/19.

5.2 Since February 2018 a number of changes have occurred, some of which were reported in the Quarter 1 18/19 monitoring report to the last Cabinet. They are, amongst others as follows:

- Business rates pooling gains
- Green Waste fees and take-up
- Changes and savings within the Public Protection Unit
- Reduction in Minimum Revenue Provision (MRP) charges by the use of available capital reserves
- New commercial and efficiency opportunities within the Operations service
- Revenue anticipated in relation to the Knowsley Road depot.
- Anticipated reversal of Central Governments “negative” Revenue Support Grant.
- Anticipated change to the value of New Homes Bonus.

5.3 The current base revenue budget/cost forecast for Council, together with anticipated funding is as follows:

	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000
Budget Estimates	10,032	10,090	10,236	10,362	10,553
Estimated Funding:					
Council Tax (+2.99%)	5,384	5,545	5,711	5,882	6,058
Council Tax - growth in base (0.62%)	-	34	69	103	138
Revenue Support Grant	189	-	-	-	-
NNDR (Business rates baseline funding)	2,097	2,143	2,186	2,230	2,276
New Homes Bonus	684	442	252	171	-
Collection Fund Surplus - Council Tax	80	-	-	-	-
NNDR Retained / Pooling	800	1,000	1,000	1,000	1,000
Resources	9,234	9,165	9,218	9,386	9,472
Surplus / (further savings required)	(797)	(925)	(1,018)	(977)	(1,082)

The Key assumptions or changes to the February 2018 report are:

1. Budget estimates:

- a. Annual pay award 2% pa 20/21 onwards – this is a change to the previous assumptions of 1% pa increase following the current 2 year pay agreement (1% equates to £60k, inclusive of on costs added each year). This revised assumption follows the lifting of the Public Sector pay cap and is in line with national forecasts/targets for inflation.
- b. Assumes an annual staff vacancy saving of £150k pa – no change to assumptions and proving challenging in 2018/19.
- c. Pension costs for future service remains at 15.6% of gross pay. See also comments in para 5.6 below.

2. Council tax to continue to increase at 2.99% (previous MTFS 1.99%) with growth in the tax base of 0.62% pa (previously 0.62%). 2.99% is the Government's maximum before triggering a local referendum (although this is currently out to consultation).

3. NNDR baseline funding increased by £161k, a change to previous assumptions and in line with the Governments current 18/19 consultation therefore reversing the negative RGS for 19/20 previously assumed.

4. NNDR:

- a. The benefits of the existing pooling arrangement are forecast to increase by £200k pa to £1m as from 2019/20. This is based on the outcome for 17/18 and current 18/19 forecasts.
- b. 19/20 pooling and beyond - Along with the majority of Lancashire local authorities (all but Lancaster) the Council has agreed to an application to be a 75% Business rates retention pilot for 2019/20 (one year only). The applications process is not guaranteed but if successful could have further financial benefit to Rossendale estimated to be at least £200k for 19/20 only (not included in the MTFS). Beyond 19/20 the outlook is uncertain as 2020/21 will see the introduction of the Government's own proposals for the 75% retention of business rates. The MTFS does assume a neutral financial position, ie no gains or losses when compared to the existing pooling arrangements and its previous growth benefits. This means that the financial benefits from growth in the tax base, since the introduction of the retention of local business rates is still retained by councils and is not taken away by an changes to baseline funding or tariffs paid. This is a significant assumption risk given the value of business rates

above our baseline (ie £1m pa) and assumed to be in our core annual funding. Not all councils include all growth in their core revenue funding.

5. New Home Bonus (NHB) as per Government's latest consultation will cease after 19/20, plus current forecasts (which impact on 19/20 for four years) do not now anticipate Council significantly exceeding the 0.4% threshold, This is a significant change from the previous MTFS at a cost of £94k pa for 4 years together with the Government's announcement that 19/20 will be the final year for NHB. Its replacement has not been quantified nor included in the forecast due to lack of detail at this stage. Officers anticipate that any future value will be significantly below those previously seen with NHB. At the time of writing and assuming no change to the 0.4% threshold the Council would achieve no more that c £39k pa. This is not included in the forecast as the Government are consulting on the 0.4% threshold which, if increased would mean that any increase in housing numbers would be below the threshold resulting in the Council receiving no NHB for 19/20 (and the following 3 years)

- 5.4 Over the past months the senior management team, in consultation with the Leader and Cabinet and the leader of the largest opposition party, have been considering a range of savings options together with an assessment of new challenges and potential risks. Additional forecast changes to income and revenue within the base budget (as noted in 5.3 above) are as follows:

Potential changes	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
Continued reduction in DWP Admin Subsidy	-20	-40	-60	-80
Whitaker Museum - reduction in support post Lottery bid (current c. £90k)	-	-	20	20
Annual capital contribution (Current £100k) reduced	25	25	25	25
Internal Audit fees - reduce days	5	5	5	5
Dominium contribution from land sales (not previously in budget)	15	15	15	15
Spinning Point Phase 1 - Net benefits	10	30	30	30
Public Protection Unit efficiencies	70	70	70	70
Fees and charges: annual increase by at least inf'n of 2%	40	80	120	160
Repayment of borrowing using c.£660k of capital receipts	100	70	83	51
Garden Waste (additional take-up)	160	160	160	160
CLAW - Grant / efficiencies	-	10	10	10
Whitworth Town Council (end special Council Tax Support grant)	2	4	6	8
Procurement efficiencies	25	50	50	50
Operations: Commercial activity / increased productivity	20	50	100	100
Digital transformation & service delivery	-	250	250	250
ICT saving / efficiencies	-	20	30	40
Review of grant funding	-	10	10	10
Review of commercial property / rent optimisation	20	20	20	20
1 -New Commercial Investments (c. 7.8% gross, 5.8% funding)	-	18	19	20
2 -New Commercial Investments (c. 7.8% gross, 5.8% funding)	-	-	18	19
Spinning Point Phase 2: 40% Share of Bus' Rates	-	-	120	120
Income reductions: Taxi licensing / Recycling	-75	-75	-75	-75
Volume & Technical (contingency)	-50	-100	-100	-100
Total	347	672	926	927

Key Assumptions:

1. A number of actions are a clear choice for Council or have already been actioned during 2018/19 (eg: Green waste, repayment of borrowing, Public Protection Unit, etc).
2. Digital Transformation is not unique to Rossendale but is something we and other councils have been developing. It represents the use of digital technology (smart phones, computers, the internet and social media) to make its operations more streamlined, effective and responsive to meet the needs of residents and businesses and achieve the vision set out in the Corporate Plan. This builds on the work already underway through our updated website and telephony service.
3. Knowsley Road : The opportunities for financial returns will come from either Spinning Point Phase 2, similar property developments/investments (if a disposal) or a lease arrangement.
4. The Volume & Technical contingency is for any unknown changes (eg: legislative, economic, etc). 2019/20 lower due to less uncertainty.

5.5 Net impact of: core budgets (ie operational costs without change), anticipated funding and potential changes are as follows:

	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000
Initial funding gap (para 5.3)	(797)	(925)	(1,018)	(977)	(1,082)
Potential chages / savings (para 5.4)	0	347	672	926	927
Revised funding gap	(797)	(578)	(346)	(51)	(154)

The above demonstrate that, albeit close to a balanced financial position, we are not quite there based on our current assumptions.

As at March 2019 the Transitional Reserve is forecast to total £1.971m and therefore, assuming the above, will cover the revised annual funding gaps at the expense of £1.1m of reserves.

5.6 Other considerations:

- The MTFS has not factored in changes to staff terms and conditions (eg: unpaid leave, reductions in working week, forfeit of pay increases). In previous years the Council has imposed unpaid leave as a cost saving measure. The above demonstrates that Council is close to achieving a balanced budget without any detrimental impact on staff and morale.
- The three in four elections cycle remain in place.
- The MTFS assumes that Council will again be offered the three year prepayment discount in 2020/21. The MTFS assumes a continued 4% annual increase in its underlying deficit contributions. The MTFS therefore assumes no material change as a result of the 2019 actuarial valuation. Lancashire Leaders, CEOs and CFOs are currently liaising with the Pension Fund and actuary to ensure an optimum position for all stakeholders going forward. Early indications from the Fund's actuary regarding pension deficits are encouraging and have the potential to clear our MTFS deficit, but as yet have not been factored into the MTFS until we have sight of the formal 2019 valuation. Should

the 2019 valuation show an improved position this is no guarantee for the longer term.

COMMENTS FROM STATUTORY OFFICERS:

6. SECTION 151 OFFICER

6.1 Financial matters are noted within the report.

7. MONITORING OFFICER

7.1 There are no material legal or constitutional matters arising from the report.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 No further comments.

9. CONCLUSION

9.1 The Council must remain focused on delivering efficiencies and/or income generation in order to ensure balanced and fully funded budgets over the medium term. Failure to do this will result in an accelerated use of available reserves followed by the use of other reserves previously set aside for other projects.

9.2 The MTFS is based on a set of assumptions as noted above (together with their risks), some of which have a material impact on the size of any future funding gap (eg the Governments fair funding review, the Council's future share of Business Rates, etc). There remains much uncertainty for the future of local government financing.

9.3 It is a legal duty for this council to set fully funded budgets each year it is therefore the duty of all Members to ensure that financial sustainability and resilience is planned for and achieved.

Background Papers

Document	Place of Inspection
2018/19 Budget and MTFS reports	Web (Full Council)