

**CABINET**

**COUNCILLOR GARETH LYON,  
CORPORATE AND DEMOCRATIC  
SERVICES PORTFOLIO HOLDER**

**16 OCTOBER 2018**

**REPORT NO. FIN1829**

**KEY DECISION: NO**

## **MEDIUM TERM FINANCIAL STRATEGY 2019-22**

### **SUMMARY:**

The Medium Term Financial Strategy (MTFS) covering three years 2019-20 to 2021-22 brings together all of the elements that are considered as part of the robust planning process for a sustainable and prudent future for the services that the Council provides or commissions for its residents, and how these services will be financed.

The MTFS sets out the national and local factors which impact upon budget and service planning decisions. It details funding reductions and shows how the Council intends to manage the reductions, to make transformative changes and plan new initiatives, while meeting its statutory responsibilities. Later versions of this report will be updated as better information becomes available.

This paper is one of a suite of reports to Cabinet that support decisions for the budget recommendations to the Council.

### **RECOMMENDATIONS:**

Cabinet is asked to agree the Medium Term Financial Strategy 2019-22, including the two policy objectives to be achieved:

- i) Revenue: To identify further funding or savings to produce a balanced budget 2019-22, and
- ii) Capital: To support the proposed long-term strategy to apply capital resources to fund schemes that produce a net revenue return and so minimise the impact of possible funding reductions to the borough noted in the Summary above.

## **1. INTRODUCTION**

- 1.1 The Medium Term Financial Strategy (MTFS) 2019-22 replaces the 2018-21 MTFS.
- 1.2 The Rushmoor Borough Council nevertheless continues to face some financial challenges and difficult decisions will continue to have to be made, in order to set the budget in the following three years and beyond, so that the

Council continues to provide a high quality range of services and to deliver good value to local residents for their council tax.

- 1.3 During the Autumn, significant work will take place to further improve our financial situation, and review and challenge all budget estimates. The work includes, assembling new capital bids, and identifying further revenue savings. There will be funding announcements, within the Provisional Local Government Finance Settlement for 2019-20 (due in November/ December), that could present further challenges. Before any of this work is done, the starting point is a funding requirement over the three years 2019-22, which would have been larger but for the success in generating significant income from Commercial Property. The current starting point is as follows:

Revenue Forecasts 2018/19-2021/22	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Annual Funding Gap (surplus-/loss+)	<b>+41</b>	<b>+171</b>	<b>+27</b>	<b>+752</b>

- 1.4 The MTFS sets out the national and local factors which impact upon budget planning decisions. It will detail funding reductions and shows how the Council intends to manage the reductions, in central Government grants, to make transformative changes and plan new initiatives, while meeting its statutory responsibilities.
- 1.5 The later MTFS reports in December and February, will in particular, provide a better understanding of trend data, and the associated pressures that could give rise to additional costs, whilst the cost, complexity and time required to the modernisation programme has to be better understood.

## **2. CONTEXT**

- 2.1. There are four drivers of change that affect the MTFS, which are

1. Population increase/decrease;
2. The economy;
3. Policy decisions, from Government, the County and the Council;
4. Rushmoor 2020 – encompassing the Council's approach to transformation, income generation and delivery of savings across the business;

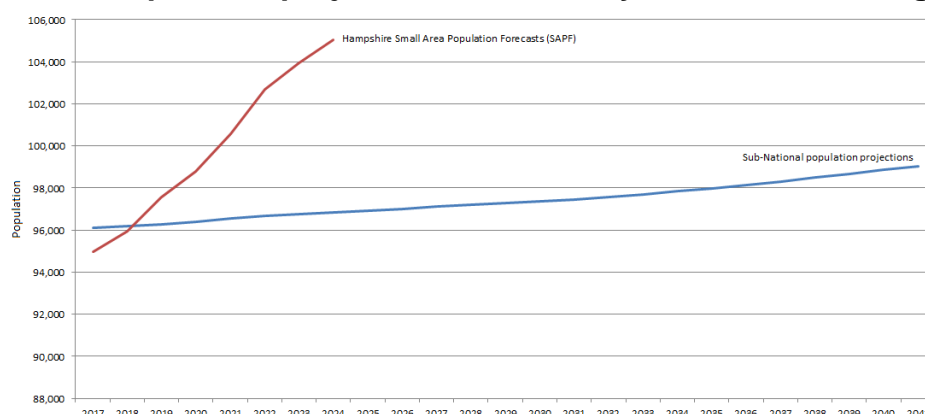
## **3. POPULATION FACTORS**

- 3.1 There is a net increase in Rushmoor's population over the planning period. This matters, in terms of ensuring services are scaled up, where appropriate.
- 3.2 The change in population is measured in two ways, which are different:
1. Sub-National Population Projections. These are projections, based on past information and trends that show a modest increase; The Sub-

National Population figures project Rushmoor's population to reach 99,045 by 2041.

2. The Hampshire small study area projections that are based on projected housing starts, and show a more rapid increase. This is the figure favoured by Rushmoor's Planners. The Council has an active role in delivering this outcome.
3. The Hampshire Small Study area forecasts the population in Rushmoor to reach 105,039 by 2024. This figure is based on future dwellings supply.
4. As at August 2018, Rushmoor's population is 95,800.
5. Both data sets are illustrated in the graph below:

**Table 1: Population projection increases by census or housing starts**



	2017	2018	2019	2020	2021	2022	2023	2024
Population	94975	95334	97577	98790	100071	102669	103953	105039
Increase from prev yr		359	2243	1213	1281	2598	1284	1086

- 3.2 Officers are working to produce a best estimate, and better understand the makeup of the increase, for example the age of new residents. There will be an impact on the MTFS of greater Council Tax income and possible increases in service delivery, generating extra costs.

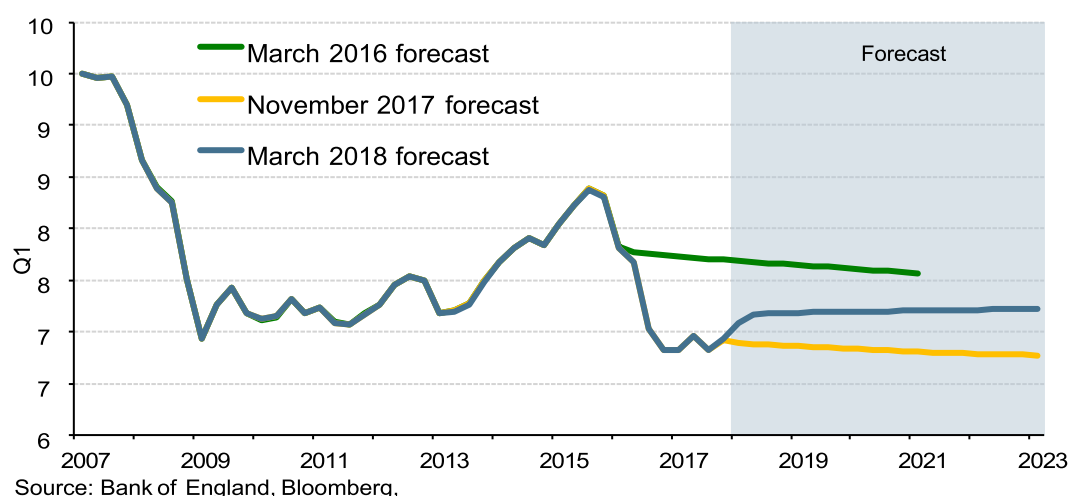
#### 4. THE ECONOMY

- 4.1 The March 2018 Office for Budget Responsibility report "Economic and fiscal outlook", published twice yearly, outlines six specific risks:
  1. The outlook for productivity growth remains hugely uncertain. Over the next few years, although we still expect some improvement on the current weak rates, that improvement may not arrive, or may take longer to materialise, so productivity could surprise on the downside.
  2. Before and after the UK's exit from the EU, policies and regimes will evolve to supersede those presently associated with EU membership. These changes, and the response of households and businesses to them, are subject to great uncertainty and there is little by way of precedent on which to base any forecast assumptions.

3. The current account deficit remains large by historical standards. Overseas investors are consequently acting as significant net lenders to the UK, which could pose risks. That could lead to a sharp fall in sterling.
4. Private consumption growth has outpaced income growth in recent years. This could pose a risk to the forecast, if it deviates from assumptions.
5. The IMF believes the medium-term risks to the global economy are skewed to the downside. There is also risk of a retreat from cross-border economic integration, highlighted by US President's decision to impose additional customs tariffs on some trading partners.
6. In the 61 years for which the ONS has published consistent quarterly real GDP data, there have been seven recessions – suggesting that the chance of a recession in any five-year period is around one in two. So the probability of a cyclical shock occurring sometime over our forecast horizon is fairly high.

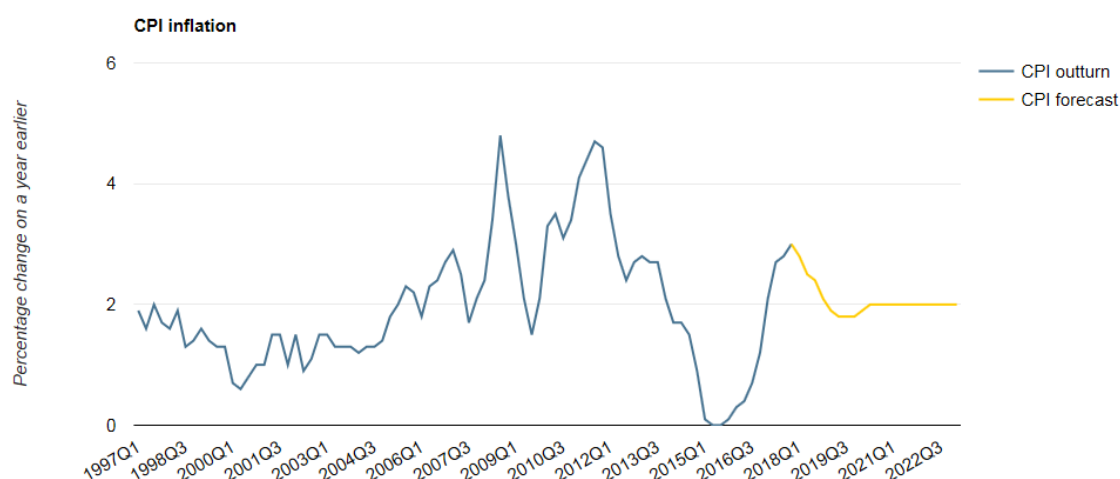
- 4.2 In the 15 months between its peak in late 2015 and its trough in late 2016, sterling fell by 17 per cent, with the sharpest falls occurring in the wake of the June 2016 referendum. This is likely to reflect some market participants' belief that a real depreciation is necessary to compensate for the risk of what they believe may be reduced competitiveness associated with a potentially less open trading relationship between the UK and the EU. .

**Table 2: Forecast value of Stirling - % fall**



- 4.2 On the upside there appears to be a reduced risk of inflation. The Office for Budget Responsibility (OBR) has produced a Consumer Price Index (CPI) forecast, as set out below, which shows inflation falling to 2% from 19/20 quarter 3.

**Table 3: Forecast level of inflation**



#### 4.3 Local Economy - The Council has identified **sustaining a thriving economy and boosting local business** as one of its four priorities. The key initiatives under this priority include:

- Setting up a new partnership and company arrangements to enable regeneration and the development of private rented and affordable housing on Council owned land;
- Finalising and consulting on a development scheme for Union Street, East Aldershot and agree proposals for other sites to support regeneration of Aldershot
- Producing a town centre strategy for Aldershot;
- Finalising and consulting on the Masterplan for the Civic Quarter area of Farnborough town centre and agreeing the approach for moving forward each site in the Masterplan;
- Supporting Hampshire County Council to implement the Farnborough Transport Package;
- Progressing the Local Plan;
- Working with schools, local Further Education providers, the County Council and employers to improve skills, raise aspirations and increase educational attainment;
- With partners starting to develop a centre of excellence for aerospace built on the Farnborough brand;
- Exploiting the economic and social benefits of the Farnborough Air show and the new conference centre;
- Developing a more strategic and proactive approach to economic development, building on the Borough's assets and offer to investors.

## 5. POLICY DECISIONS, FROM GOVERNMENT, HAMPSHIRE COUNTY COUNCIL AND THE COUNCIL

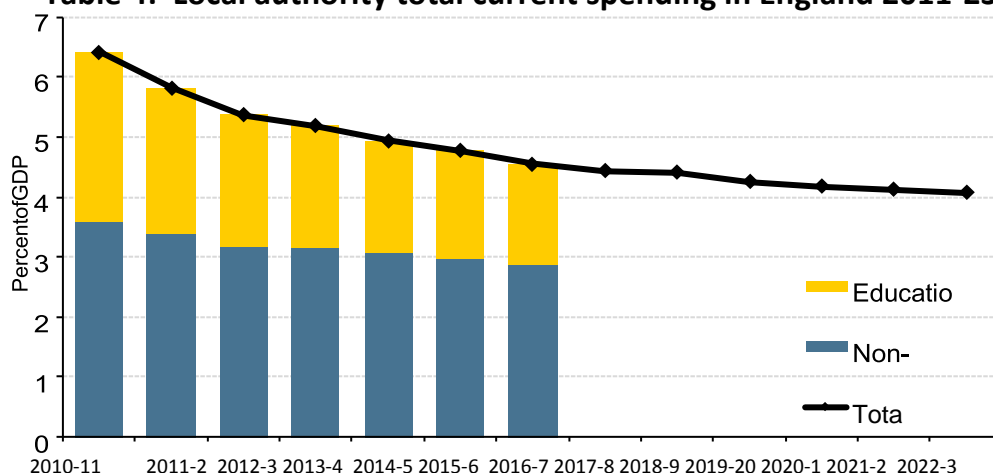
### **Government**

- 5.1 At a national level, the exit from the EU is having three effects. Firstly, investment decisions are delayed, and possibly cancelled or relocated. Secondly, there is an unrecoverable bill in contingency planning, expended on

large amounts of thought, time and cash. Finally, the degree of Government time that is being dedicated to the process of leaving may be preventing it having as much of a focus on other public policy areas as may be desirable.

- 5.2 Through the Settlement consultation for 2019-20, the Government have signalled that negative Revenue Support Grant (RSG), a deduction of £153m in England, and £90k for Rushmoor, will not occur in 2019-20, it being the last year of the four-year settlement.
- 5.3 The second policy initiative is the extension of Retained Business Rates – from 50% to 75% - for 2019-20, for new round of applicants. Rushmoor is part of the Hampshire bid, though the Government have signalled that they expect to award fewer than the 10 last year.
- 5.4 The greatest uncertainty, is the next 4-year Settlement regime, from 2020-21, which will include a national 75% Business Rates Retention. This will reset all Councils baselines, and will produce winners and losers. Depending on its design, it could usher in years of phasing-in, which for the losers, would require continued budget adjustments.
- 5.5 The recent work by the IFS on Business Rates retention contend that the benefits of retention by authorities which have successfully grown a base of local businesses are unequally distributed, and may be a case for re-setting baselines. The average gain for the 38 rates pilots is 2.74% (Extra funding in 2018-19 as a % of core spending power) with a low of 0.6% (Liverpool) and a high of 8.3% (Berkshire).
- 5.6 In the light of this, as the following table illustrates, the only guide on the Council's externally affected resources beyond 2019-20, this early in the process, is the current OBR's projection of overall resources for England's local authorities, which shows a decline from 2018-19 to 2021-22 of around 0.4% of GDP. It should, however, be noted that this is against a backdrop of anticipated rising GDP by the OBR.

**Table 4: Local authority total current spending in England 2011-23**



### ***Hampshire County Council***

- 5.7 The County is the holder of two large demand-led services and limited room to manoeuvre to increase income. The OBR has drawn attention to this:

“As central government spending cuts started, local authorities built up their reserves cover. This metric then began to deteriorate from 2014-15. The more striking trend however is the shift on the budget pressures metric, where inflexible (or statutory) spending as a share of income at the median authority increased from 61 to 72 per cent between 2013-14 and 2016-17, while for the authority at the bottom fifth percentile it had increased from 74 to 87 per cent over those three years.

Also, in the same space, CIPFA are attempting to construct a ‘traffic light’ system to “be more effective in stabilising councils before they go over the cliff edge”. The current proposals have been criticised as being what is easily to collect, rather than being what is right. For example, the issue of governance is ignored.

- 5.8 The upshot is the reduction in ‘flexible’ (or discretionary) spending, may have an impact on Rushmoor residents, with Counties pushing costs for which they are responsible onto Borough and District councils. There could be pressure for this Council to mitigate this, in some way.

### ***Rushmoor Borough Council***

- 5.9 The Council has four stated priorities for the area which are set out below:

- Sustaining a thriving economy and boosting local business
- Supporting and empowering our Communities and meeting local needs
- A cleaner, greener and more cultural Rushmoor
- Financially sound with services fit for the future

- 5.10 To support these priorities the following initiatives, taken from the Council’s Plan, are relevant:

- Regenerate our Town Centres
- Develop private rented and affordable housing
- Improve skills and educational attainment
- Enhance the leisure and cultural offer in the Borough
- Invest further in commercial property and explore other opportunities to generate income / reduce costs
- Develop and implement Rushmoor 2020 - a modernisation and improvement plan based on the “Listen, Learn, Deliver - Better” ethos

- 5.11 The above mentioned identified priorities will help guide the Council as it approaches decisions about reshaping services and targeting reducing resources, as well as choosing where and when to invest in the future of the Borough.

- 5.12 The current saving proposals are set out at Appendix 2. Before seeking any new savings, the current programme is generating the following - if the higher risk areas are able to deliver to plan:

**Table 5: Savings programme**

2018/19	2019/20	2020/21	2021/22
£000	£000	£000	£000
641	2559	3055	3090

## **6. RUSHMOOR**

- 6.1 The Council has recognised that its current model of operation is unlikely to be sustainable over the medium term. A modernisation and improvement programme, Rushmoor 2020 has been established to modernise and improve how the Council works to increase customer focus, deliver sustainable savings, provide excellent services, exploit the opportunities offered by technology and provide the capacity to drive forward the Council's ambitious regeneration programme

## **7. ENVIRONMENT**

- 7.1 Additionally to the four major drivers of change, the environment is a concern for many residents.
- 7.2 Waste - the Council is, as a priority, working with its new contractor, Serco, to increase recycling rates. A significant area of activity continues to be the provision of the new depot and incentives from the County for collection authorities to provide kitchen waste collections and enhanced recycling services in particular. The Overview and Scrutiny Committee has expressed an interest in reviewing recycling performance as part of its work programme.
- 7.3. Quality of the urban environment – carbon initiatives, grass cutting, a drive to improve air quality for residents, together with infrastructure to enable citizens to minimise their impact will enhance the desirability of moving to Rushmoor, enabled by the Regeneration programme.

## **8. RESOURCES**

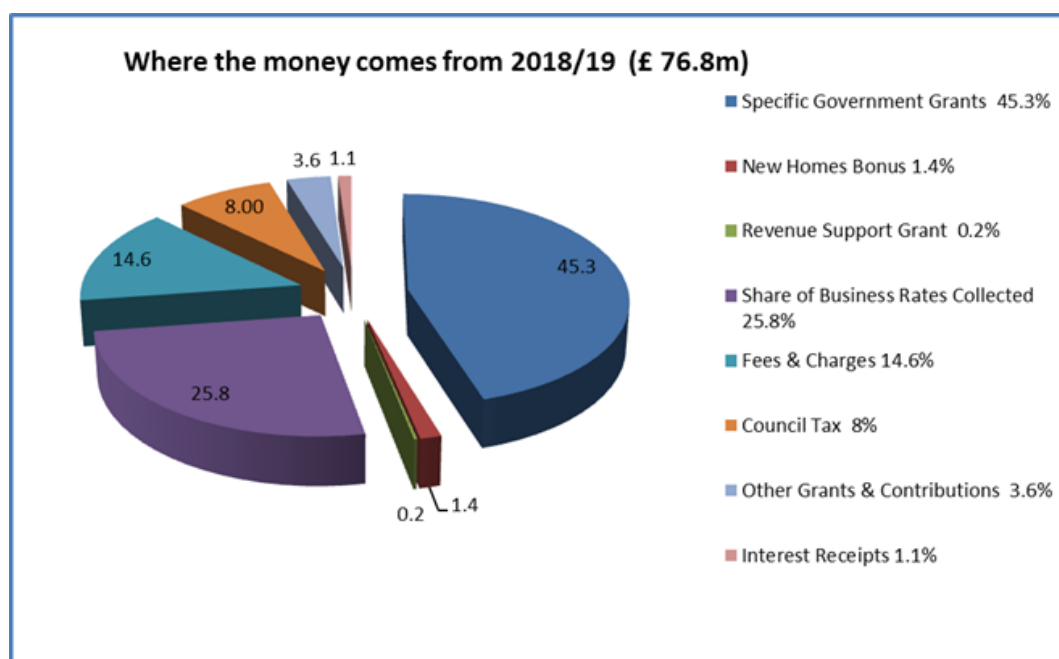
### **8.1. Local Government Funding**

Local Government funding has three major components; money received through Council Tax, money received through partial retention of locally generated Business



Rates and money redistributed by Government in the form of Revenue Support Grant (RSG) and specific grants. Councils also generate income through sales, fees and charges. The split of this funding in 2018-19 is shown in the pie chart below, with the figures and explanatory text at Appendix 3.

**Table 6: Where the money comes from 2018-19**



## 9. REVENUE STRATEGY AND BUDGET

- 9.1. The primary objective of the Medium Term Financial Strategy 2019-22 is to show a balanced three-year budget, in the context of increased risks. At present, this has not been achieved. Appendix 1 has an expanded version of Table 7.

**Table 7: Budget 2018-22**

Revenue Forecasts 2018/19-2021/22	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Total Net Budget	11,957	13,616	14,667	16,384
Total Funding	-11,275	-10,886	-11,585	-12,542
Funding Gap	682	2,730	3,082	3,842
Less Savings Proposals Appendix 2	-641	-2,559	-3,055	-3,090
Annual Funding Gap (surplus-/loss+)	<b>+41</b>	<b>+171</b>	<b>+27</b>	<b>+752</b>
Cumulative Funding Gap	+41	+212	+239	+992

- 9.2. The Medium Term Financial Forecast for revenue expenditure includes the day-to-day running costs of our services, any associated income, any corporate expenditure and income (such as interest receivable from investments or the costs of borrowing) and various funding streams such as grants, business rates and council tax.
- 9.3 The starting point for the forecast at Appendix 1 is the 1<sup>st</sup> quarter budget monitoring position for 2018/19 as reported to the 21st August 2018 Cabinet. After allowing for any significant one-off items of expenditure or income for the current year, the forecast takes into account major changes forecast for the period up to 2021/22.
- 9.4 The following summary of assumptions have been made in the forecast:
- Pay awards of 2% in 2019/20 and all periods following plus incremental progression within grades;
  - An element of contractual inflation and growth in contract costs due to development in the Borough;
  - Increased pension liability;
  - An allowance for one-off and on-going variations in service;
  - Interest costs at short-term rates of approximately 0.85% in 2018/19 and then increasing at 0.25% increments in-line with the estimated rate of Bank of England base rate increase and the associated Minimum Revenue Provision;
  - General Fund balances held at a level commensurate with the risks the Council face;
  - Assumed increase in business rates income of 3% per annum in 2018/19 and 3.5% thereafter;
  - 2.99% increase in Council Tax year on year; and
  - 1.5% growth in Council Tax base from 2019/20.

## 9.5. General and Earmarked Reserves and provisions

- 9.5.1 General reserves are an essential part of good financial management and are held to ensure that the Council can meet unforeseen expenditure and respond to risks and opportunities. The level of reserves held has been set at a limit consistent with the Council's risk profile and with the aim that Council Tax payer's contributions are not unnecessarily held in provisions or reserves. A separate report on the level of risk and possible level of General Fund Balance is planned for November.

**Table 8: General Fund balances**

Revenue Balances	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
General Fund Balance	2,000	1,929	1,901	1,901
Increase to GF Balance Q1 monitoring	99	28	0	0
Stability & Resilience Reserve	4,353	4,353	4,353	4,353
Estimated Balances at March 31st	6,452	6,310	6,254	6,254

Note: does not include any +/- arising from the Revenue Forecast T7

- 9.5.2 Earmarked Reserves support the Council's planning for future spending commitments. The Stability & Resilience Reserve is the major Earmarked Reserve. Further details of the anticipated use of Earmarked Reserves will be included in the Statement on the adequacy of Provisions and Reserves 2019-22, planned for November.

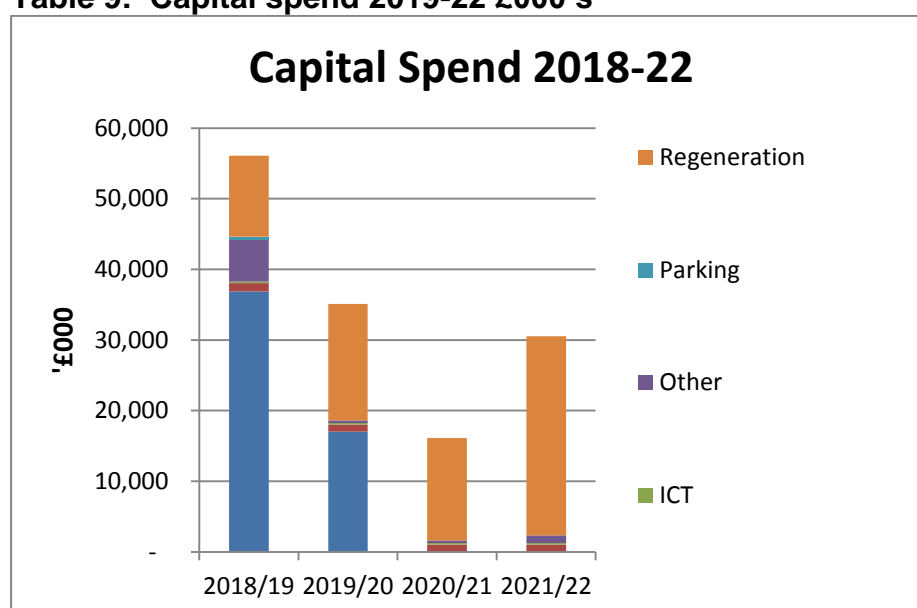
## 10. CAPITAL STRATEGY AND BUDGET

- 10.1 The Capital Strategy provides a framework for the allocation of resources to support the Council's objectives. The key aims of the Capital Strategy are:
- How the Council identifies, programmes and prioritises capital requirements and proposals;
  - Provide a clear context within which proposals are evaluated to ensure that all capital investment is targeted at meeting the Council's priorities;
  - Consider options available to maximise funding for capital expenditure whilst minimising the impact on future revenue budgets;
  - Identify the resources available for capital investment over the three-year planning period.
- 10.2 The capital programme for 2018-22 currently stands at £137.849m and is summarised at Appendix 4. It is important to highlight three strategic issues:
1. The programme consists of the existing schemes, and awaits the generation of new bids, for which a process is just starting;

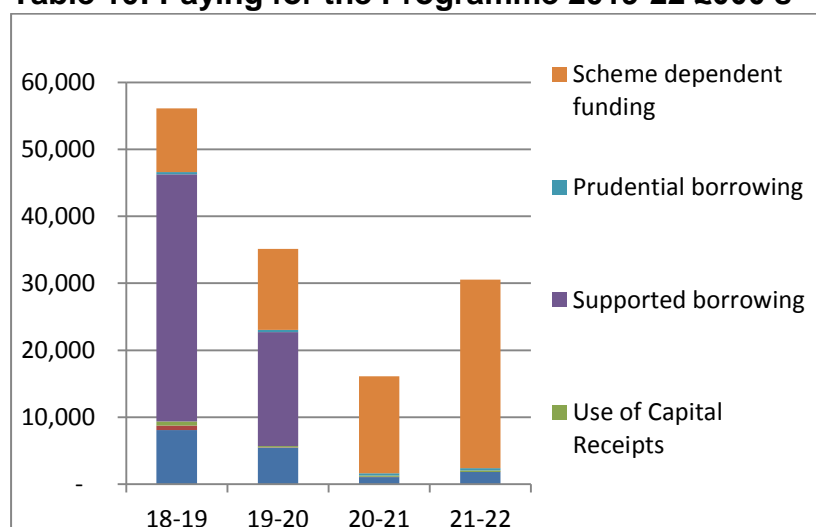
2. The borrowing costs for commercial property initiatives are offset, in whole, by the income that appears in the savings proposals (Appendix 2). However, the capital spending of £17m currently shown in 2019-20, is a marker for showing the Council's intention, rather than a specific scheme. Consequently, no borrowing costs or income has been included in the MTFS, lacking a specific scheme. When a scheme or schemes is identified, the net income would help close the gap;
3. Regeneration projects budgets are similarly markers for showing the Council's intention. Consequently, no borrowing costs have been included in the MTFS, lacking a scheme details.

10.3 The bar charts below show the split of capital spend, by type of programme and years, (Table 9), and how it is funded (Table 10).

**Table 9: Capital spend 2019-22 £000's**



**Table 10: Paying for the Programme 2019-22 £000's**



- 10.3 The level of 'external borrowing', falls into three types. Two of them, are regarded as not producing a revenue cost to the Council – Scheme Dependant Funding and Supported Borrowing. The third, Prudential Borrowing amounts to some £1.4m over the four-year period. The costs of borrowing are reflected in the Medium Term Financial Forecast (MTFS) set out in this report and include both Minimum Revenue Provision and interest costs. Appendix 4 explores this issue.
- 10.5 The use of capital receipts is for ICT equipment/ hardware as these generally have the shortest estimated useful life to the Council of anything in the capital programme.

## **11. MEDIUM TERM FINANCIAL STRATEGY POST-BUDGET SETTING**

- 11.1 After the budget is set at the Council's meeting in February, the information contained within the following planned reports will be amalgamated into the Medium Term Financial Strategy:
- Robustness of estimates 2019-22;
  - Statement on the adequacy of provisions and reserves 2019-22;
  - Revenue Budget 2019-22;
  - Capital Programme 2019-22 (including Prudential Indicators); and
  - Annual Investment and Treasury Strategy 2019-20

## **12. CONCLUSIONS**

- 12.1. This budget round includes two major events, that increase the level of risk for the Council – they are set out in the comments of the Office of Budget Responsibility in paragraph 4.1.2, on the implications of leaving the European Union, and paragraphs 5.1-5.6 on the new Settlement regime from 2019-20. The progress on lessening the dependence on grants, by increasing income, is a major achievement in mitigating the risks the Council faces and needs to continue.

**PETER TIMMINS**  
**INTERIM EXECUTIVE HEAD OF FINANCE**



# APPENDIX No. 1

## REVENUE FORECAST

Revenue Forecast 2018/19 - 2020/21	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
<b>Net Revenue Budget</b>	12,129	11,957	13,687	14,695
<b>Revenue savings:</b>	12129 incl			
Additional contract savings	MRP @ 807	-89	-48	-4
<b>Cost Increases:</b>				
Pay award/Increments		279	282	286
Inflation/contract growth		209	142	145
Pensions (increase in Super % + fixed sum)		175	155	162
Variations in Service & further supp ests in year		270	200	200
Interest cost		593	257	893
Repair and maintenance costs		250	0	0
Minimum Revenue Provision	-172	43	20	7
<b>Total Cost Pressures</b>	-172	1730	1008	1689
<b>Transfers to/(from) Reserves:</b>				
General Fund balance				
Stability & Resilience Reserve	0	0	0	0
Service Improvement Fund	0	-71	-28	0
<b>Total Transfers to Usable Reserves</b>	0	-71	-28	0
<b>Adjusted Net Revenue Budget</b>	11,957	13,616	14,667	16,384
<b>Funding:</b>				
Other grants	-161			
New Homes Bonus	-1,095	-1,009	-1,559	-2,137
Revenue Support Grant	-190	-	-	-
RBC share of rates collected	-19,797	-19,674	-20,047	-20,460
Tariff payable	15,709	16,058	17,593	17,945
Levy /(Safety net )	1,267	1,007	-	-
s31 Business Rates grants	-782	-798	-814	-830
Council Tax	-6,148	-6,370	-6,658	-6,960
Collection Fund (surplus)/deficit - CTax	-100	-100	-100	-100
- NNDR	22	-	-	-
<b>Total Funding</b>	-11,275	-10,886	-11,585	-12,542
<b>Funding Gap</b>	682	2,730	3,082	3,842
<b>Saving Proposals</b>	-641	-2,559	-3,055	-3,090
<b>Annual Funding Gap</b>	41	171	27	752
<b>Cumulative Funding Gap (+cost)</b>	+41	+212	+239	+992





## APPENDIX No. 2

### CATEGORISATION OF SAVINGS PROPOSALS

Meeting on-going savings requirement	2018/19	2019/20	2020/21	2021/22
Budget figures	£000	£000	£000	£000
Efficiency Savings (Customer & Digital/ Service Transformation)	65	65	65	65
Organisational Redesign	49	389	689	689
Better Procurement & major contract renewal	-9	230	230	230
Service reviews	0	0	0	0
Income Generation				
Investment in Property - Commercial	368	1,605	1,766	1,766
Investment in Property - Residential		50	50	50
Investment - Other	144	161	161	161
Reviewing fees, charges and concessions	24	59	94	129
	<b>641</b>	<b>2,559</b>	<b>3,055</b>	<b>3,090</b>
<b>Efficiency Savings (Customer &amp; Digital/ Service Transformation)</b>	<b>85</b>	<b>90</b>	<b>90</b>	<b>90</b>
Internet-based music system - Bereavement Services	35	35	35	35
Environmental Services Contract Hub	30	30	30	30
	<b>65</b>	<b>65</b>	<b>65</b>	<b>65</b>
<b>Organisational Redesign</b>	<b>17</b>	<b>389</b>	<b>689</b>	<b>689</b>
Benefits service (2 FTE released) & other minor adjustments	17	89	89	89
MARS ( 2nd round) & restructure	32	300	300	300
Rushmoor 2020			300	300
	<b>49</b>	<b>389</b>	<b>689</b>	<b>689</b>
<b>Better Procurement &amp; major contract renewal</b>	<b>83</b>	<b>400</b>	<b>400</b>	<b>400</b>
Better Procurement	-9	30	30	30
Major contract renewal - Leisure		200	200	200
	<b>-9</b>	<b>230</b>	<b>230</b>	<b>230</b>
<b>Service reviews</b>				
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Income Generation</b>				
<b>Investment in Property - Commercial</b>	<b>1456</b>	<b>2,038</b>	<b>2,619</b>	<b>2,619</b>
Investment in Commercial Property	368	1,605	1,766	1,766
	368	1,605	1,766	1,766
Investment in Property - Residential		<b>70</b>	<b>140</b>	<b>140</b>
Other Housing projects		50	50	50
	<b>0</b>	<b>50</b>	<b>50</b>	<b>50</b>
Other investments	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
FIL return	33	50	50	50
Planning fees	100	100	100	100
Planning Pre-application fees	11	11	11	11
	<b>144</b>	<b>161</b>	<b>161</b>	<b>161</b>
<b>Reviewing fees, charges and concessions</b>	<b>24</b>	<b>59</b>	<b>94</b>	<b>129</b>
Fees and Charges	24	59	94	129
	<b>24</b>	<b>59</b>	<b>94</b>	<b>129</b>
	641	2559	3055	3090



**SOURCES OF INCOME**

The table below details the amount of income received in 2018-19. The dominant item is specific grants, the reimbursement of the cost of Housing Benefits.

**Table: Sources of income**

	%	£'000s	
<b>SOURCES OF INCOME</b>	<b>1819</b>		
Specific Government Grants 45.3%	45.3	-34,723	
New Homes Bonus 1.4%	1.4	-1,095	
Revenue Support Grant 0.2%	0.2	-190	
Share of Business Rates Collected 25.8%	25.8	-19,797	
Fees & Charges 14.6%	14.6	-11,216	
Council Tax 8%	8.00	-6,147	
Other Grants & Contributions 3.6%	3.6	-2,790	
Interest Receipts 1.1%	1.1	-846	
	100	-76,804	

In later iterations of this report, we will include estimates for 2019-20, for some grant allocations have not yet been confirmed.

The Government has not released information for 2020-22, and the figures for these years will be indicative only.

**Specific grants (45%)**

The dominant item in specific grants is the reimbursement of the cost of Housing Benefits.

**Business Rates (26%)**

The business rates retention scheme was introduced in April 2013. There is a direct link between local business rates growth and the amount of money councils have to spend on local people and local services.

Local authorities benefit from 50% (Rushmoor 40% and Hampshire County Council 9% and Hampshire Fire Authority 1%) of business rates growth (or indeed suffer the consequences of business rates decline) in their area. The new scheme is designed to incentivise local authorities into stimulating growth.

The primary challenge is the level of financial risk that councils face due to appeals and business rate avoidance, with little scope for these risks to be managed under the current arrangements. The general view of councils is that the risks outweigh the rewards available to councils through incentives to grow the local economy.

Rushmoor along with other local authorities in Hampshire and Hampshire County Council are proposing to make a bid to become a Business Rates Pilot in 2019/20.

Should the bid be successful, this will enable Rushmoor to keep a higher percentage of business rates income amounting to 60% and a higher percentage of growth within the pool.

Rushmoor along with other participating councils will also be exposed to a higher level of risk in 2019/20; as if the wider pool of business rates across Hampshire falls from its current position then the council could be liable to pick up a proportion of this cost.

It is recommended that the first use of any additional resources within the pilot is to fund the Minimum Funding Guarantee (i.e that no authority will be worse-off than they would be in the current retention scheme).

As part of the bid process, Rushmoor has calculated its likely losses in rates income during 2019/20, which amounts to £1.3m. This is around predicted rateable values for new premises being lower than expected and large office accommodation being demolished for housing.

#### **Fees and Charges (14.6%)**

Fees and charges total £11.2 million in 2018/19. Corporate fees and charges will be set in November 2018. Increases in fees are determined on two separate bases:

- Inflation
- Cost recovery

Inflation increases will be determined by RPIX published for September 2018. Cost recovery increases are determined by review the cost of the Council provided a service and are recalculate every year in-line with scheme requirements.

#### **Council Tax (8.0%)**

Council Tax is one source of locally raised income for many local authorities. This helps make up the difference between the amount a local authority needs to spend and the amount it receives from other sources, such as business rates, government grants and fees and charges.

Further details about Council Tax are included in Appendix 5.

#### **Other Grants and Contributions (3.6%)**

Other Grants and Contributions consist:

- Made up of S106 monies,
- Additional item income and
- Contributions from Earmarked Reserves.

#### **New Homes Bonus (NHB) Funding (1.4%)**

NHB is a grant paid by central government to local councils for increasing the number of homes and their use. The New Homes Bonus is paid for each new home,

annually for 4 years. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.

A large development in Aldershot, known as the Wellesley Development is to provide for a total of 3850 new domestic properties, of which 1347 will be affordable housing.

To date, 291 of these properties have been completed and it is estimated that the following number of new properties will be completed between the financial years 2019 – 2022 as illustrated below.

**Table: New property completed in year**

	2019/20	2020/21	2021/22
<b>Private Housing</b>	250	292	262
<b>Affordable Housing</b>	125	162	116
<b>Total Housing</b>	375	454	378

There are also a number of other developments on stream, which will see an increase in the number of new domestic properties. These are Thomson House, Farnborough Road, Farnborough, which will see 115 new properties, Ham and Blackbird Site, which will bring 62 new properties. All of which are to be expected to be completed within the new three years.

The table below shows actual allocations up to 2018/19 and forecast allocations from 2019/20 to 2021/22 based on estimated local housing growth but without change in growth baseline or reductions related to planning decisions.

**Table: New Homes Bonus Forecast**

<b>New Homes Bonus Forecast</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>
Actual allocation 2015-16	295			
Actual allocation 2016-17	298	298		
Actual allocation 2017-18	162	162	162	
Forecast allocation 2018-19	339	339	339	339
Forecast allocation 2019-20		209	209	209
Forecast allocation 2020-21			848	848
Forecast allocation 2021-22				741
	<b>1,094</b>	<b>1,008</b>	<b>1,558</b>	<b>2,137</b>

### **Interest receipts (1.1%)**

The Council holds a balanced £20m of investments in pool funds returning £835,000 in 2018/19. The forecast of interest receipts over the medium-term period is set out below:

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
<b>Forecast Investment income 2018/19 - 2021/22</b>	835	781	781	781	3,180

### Revenue Support Grant (RSG) (0.2%)

As the local share of business rates has been fixed until 2020, in order to manage reduction in the overall Local Government Departmental Expenditure Limits, any changes to the Settlement Funding Assessment are addressed through changes to the RSG amount.

The amount of funding we received is published as our Settlement Funding Assessment. As shown in the table below, we are no longer in receipt of RSG.

CHANGE IN LOCAL GOVERNMENT FINANCE SETTLEMENT					
	Revenue Support Grant	Business Rates Baseline	SFA Total	Change	Change
Year	£000	£000	£000	£000	%
2016/17	1,104	2,179	3,283		
2017/18	536	2,223	2,760	-523	-15.9%
2018/19	190	2,295	2,485	-275	-10.0%
2019/20	-198	2,343	2,145	-340	-13.7%
2019/21	0	2,317	2,317	173	8.0%
2019/22	0	2,364	2,364	46	2.0%

### Commercial Activity

The Council has estimated £124.565 million over the medium-term for regeneration and commercial activity. However, the practice of investing in commercial property, particularly outside of a Council's own area, has received some negative publicity over recent months as more and more councils utilise their borrowing capabilities to secure long-term, reliable income streams. The 2017 edition of the Prudential Code tightens regulations in this area, and looks unfavourable at borrowing in advance on purely income generating activity. The estimated level of income generated from commercial activity is estimated to be £5.8 million over the medium-term as shown in the table below:

**Table: Forecast Income Generation 2018/19-2021-22**

Forecast Income Generation 2018-22	2018/19	2019/20	2020/21	2021/22	Total
	£000	£000	£000	£000	£000
Investment in Property - Commercial	368	1,605	1,766	1,766	5,504
Investment in Property - Residential	0	50	50	50	150
Investment - Other	33	50	50	50	183
<b>Annual Total</b>	<b>401</b>	<b>1,705</b>	<b>1,866</b>	<b>1,866</b>	<b>5,837</b>

Members are to note that commercial income streams are based on current estimated time table for completion of property and other investments. Income in 2018/19 contained in the MTFS has reduced due to slippage in the capital programme. Any additional slippage in the capital programme will have an adverse effect on income streams. To mitigate future slippage in the capital programme the Council is taking steps to build in increased accuracy of property completion timetables with the aid of clear markers. This is an ongoing process and updates on progress will be communicated to Members in future budget monitoring reports.

## APPENDIX No. 4

### CAPITAL PROGRAMME

Forecast Capital Programme 2018/19 – 2021/22	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Original capital programme published February 2018	28,718	35,123	16,093	30,543	110,477
					0
Slippage in capital budget	19,936				19,936
Supplementary capital expenditure approvals in 2018/19	7,436	-	-	-	7,436
					0
Potential future regeneration schemes	-				0
	56,090	35,123	16,093	30,543	137,849
<b>Cut by areas</b>					
Commercial Property Acquisitions/ Enhancements	36,883	17,000	0	0	53,883
Housing Grants/ Loans	1,185	1,033	1,033	1,033	4,284
ICT	223	208	208	208	847
Other	5,945	382	352	1,102	7,781
Parking	372	0	0	0	372
Regeneration	11,482	16,500	14,500	28,200	70,682
	56,090	35,123	16,093	30,543	137,849
<b>Funded by:</b>					
Grants and Contributions	8,088	5,448	1,048	1,798	16,382
Revenue Contributions to Capital	648	30	30	30	738
Use of Capital Receipts	627	208	208	208	1,251
Supported borrowing	36,883	17,000			53,883
Scheme dependent funding	9,482	12,070	14,470	28,170	64,192
Prudential Borrowing	362	367	337	337	1,403
	56,090	35,123	16,093	30,543	137,849

The level of 'external borrowing', falls into three types. Two of them, are regarded as not producing a revenue cost to the Council:

- Scheme Dependant Funding – Regeneration projects budgets are markers for showing the Council's intention, and partnership arrangements could result in no revenue costs to the Council. Consequently, no borrowing costs have been included in the MTFS, lacking a scheme details.
- Supported Borrowing. The borrowing costs for commercial property initiatives are offset, in whole, by the income that appears in the savings proposals (Appendix 2). However, the capital spending of £17m currently shown in 2019-20, is a marker for showing the Council's intention, rather than a specific scheme. Consequently, no borrowing costs or income has been included in the MTFS, lacking a specific scheme. When a scheme or schemes is identified, the net income would help close the gap;
- The third, Prudential Borrowing, amounts to some £1.4m over the four-year period. The costs of borrowing are reflected in the Medium Term Financial Forecast (MTFS) set out in this report and include both Minimum Revenue Provision and interest costs.

The interest costs depicted are shown at short-term rates. At some point, the Council will need to consider whether to lock in some of its borrowing to long-term, fixed rates. This will have considerable impact on the revenue budget in the short to medium term while avoiding the risk of higher rates in the future. The table below illustrates the difference in borrowing costs between current short-term and long-term borrowing rates.

**Table: Forecast Borrowing Cost 2018/19-2021-22**

<b>Borrowing Costs</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>	<b>Total £000</b>
Cost of borrowing at short term rates					
Minimum Revenue Provision	273	316	336	343	<b>1268</b>
Interest cost (short term)	262	929	1292	1592	<b>4075</b>
	535	1245	1628	1935	<b>5343</b>
Cost of borrowing at long term rates					
Minimum Revenue Provision	273	316	336	343	<b>1268</b>
Interest cost (short term)	837	1891	2427	2980	<b>8135</b>
	1110	2207	2763	3323	<b>9403</b>

Long-term decision-making is required as decisions made now may still be affecting the Council 50+ years into the future. For example, the capital forecast for the medium-term includes projects that will be completed in the final year of the forecast period. MRP does not commence until the year after a project is completed. So while the Council may borrow in the next few years to support Town Centre regeneration, Leisure provision and the development of various Housing projects, the effect of the MRP is post 2021/22 is not shown in the current forecast.



## COUNCIL TAX

Council Tax is the main source of locally raised income for many local authorities. This helps make up the difference between the amount a local authority needs to spend and the amount it receives from other sources, such as business rates, government grants and fees and charges.

Whilst this provides some certainty around the continuation of receipt of this level of funding, once specific grants are transferred into the LG DEL, there is no guarantee that we will receive the same amount, as the grants are no longer ring-fenced and we are no longer able to identify the funding as a separate amount.

Council Tax currently forms around 8% of our total income. If Councils increase their Council Tax by, or above, a certain pre-announced percentage then they have to arrange a referendum for taxpayers to approve the increase. This, alongside the availability of Council Tax Freeze Grants between 2011/12 and 2015/16 has contributed to keeping Council Tax levels relatively stable in recent years, with little growth, other than through growth of the tax base itself.

At Rushmoor, our share of the Band D Council Tax remained at £184.07 from 2010/11 to 2015/16. However, since the 2016/17 financial settlement included an assumption that all local authorities would raise their Council Tax within the restrictions of the referendum limits, thus building in this increase to the funding calculations. In addition, those authorities with social care responsibility were given the flexibility to raise their Council Tax by an additional 2% without triggering a referendum.

Rushmoor raised its Council Tax by 2.99% in 2018/19, the maximum permissible for Shire Districts without triggering a referendum. The forecast contained in the report includes future increases at the same rate with Council approval.

Over the medium-term period, raising Council Tax by 2.99 per annum generates £1,125,000 of additional income to spend on services when compared to holding Council Tax at its current level.

**Table: Council Tax income forecast containing excluding base growth**

	2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
<b>COUNCIL TAX REQUIREMENT</b>	6,148	6,331	6,521	6,716
Illustrative CT Levels (£)	198.49	204.42	210.54	216.83
CT Base	30,971.38	30,971.38	30,971.38	30,971.38
& CT Increase (%)		<b>2.99</b>	<b>2.99</b>	<b>2.99</b>
Additional income p/a		184	189	195
Additional income above base year 2018/19		184	373	568
Cumulative additional income		184	557	1,125
Annual Council Tax increase per Band D		5.93	6.11	6.30
Cumulative Council Tax increase per Band D from 2018/19 - 2021/22				<b>18.34</b>

Council Tax income will increase depending on the growth in the Council Tax Base (i.e. the number of properties paying Council Tax). This growth arises principally from new properties (or 'hereditaments') being built in the Borough. The Council Tax income each year has therefore been increased in line with estimates provided by the Council's Revenues team. Taking growth into account the total increase in Council Tax income over the medium-term period equates to £1,546,000, as shown below:

**Table: Council Tax income forecast containing base growth**

Figures including Tax base growth				
	2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
<b>COUNCIL TAX REQUIREMENT</b>	6,148	6,370	6,658	6,960
Illustrative CT Levels (£)	198.49	204.42	210.54	216.83
CT Base	30,971.38	31,158.77	31,626.15	32,100.54
& CT Increase (%)		<b>2.99</b>	<b>2.99</b>	<b>2.99</b>
Additional income p/a		222	289	302
Additional income above base year 2018/19		222	511	813
Cumulative additional income		222	733	1,546
Annual Council Tax increase per Band D		5.93	6.11	6.30
Cumulative Council Tax increase per Band D from 2018/19 - 2021/22				<b>18.34</b>

The number of properties, in each council tax band and in each district is converted into 'Band D' equivalent properties and this gives us our council tax base. The number of properties in each district is shown in the table below.

Valuation Band	Number of Properties
A	1,450
B	8,808
C	15,758
D	8,779
E	3,884
F	1,189
G	318
H	25
Total	40,211

The council tax base is then multiplied by the 'Band D' amount to calculate our council tax income (the precept). The precept generated in Rushmoor for each relevant band for the financial year 2018/19 is shown below.

2018/19 (Current Charge)	
Band	RBC Charge
A	132.33
B	154.38
C	176.44
<b>D</b>	<b>198.49</b>
E	242.60
F	286.71
G	330.82
H	396.98

If we were to assume a 2.99% increase for Council Tax a year, over the next three years, the Council Tax Precept for Rushmoor would be as follows:-

2019/20		2020/21		2021/22	
Band	RBC Charge	Band	RBC Charge	Band	RBC Charge
A	136.28	A	140.35	A	144.55
B	158.99	B	163.75	B	168.64
C	181.71	C	187.14	C	192.73
<b>D</b>	<b>204.42</b>	<b>D</b>	<b>210.53</b>	<b>D</b>	<b>216.82</b>
E	249.85	E	257.31	E	265.00
F	295.27	F	304.10	F	313.18
G	340.70	G	350.88	G	361.37
H	408.84	H	421.06	H	433.64

The council tax base is then multiplied by the 'Band D' amount to calculate our council tax income (the precept).

<b>Council Tax summary</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Tax base	31,159	31,470	31,785
Increase in number of properties	375	454	378
Band D equivalent (2.99% rise)	204	211	217
Band D equivalent (0% rise)	198	198	198
CT base rate and Band D Rise (2.99%)	6,369,711	6,625,767	6,892,116
CT Base rise	6,184,704	6,246,551	6,309,017
Additional income from 2.99% rise	185,007	379,216	583,100

Council tax base has been provisionally calculated for 2019/20. Estimates CT base increase of 1% for 2020/21 and 2021/22 as an average of historic base rate increases since 08/09 (omitting 13/14 and 14/15 as outliers due to the introduction of CTSS)

Growth in 19/20 of 0.61% is the lowest growth rate since 12/13. The low level of growth in 2019/20 is due to a higher number of empty properties and lower than expected growth in property.

### **Increase in the number of new properties**

At present, Rushmoor is undergoing significant economic development, which will see a high amount of new developments. In particular, the Wellesley Development will see 3850 new properties and 1347 being affordable housing.

Planning department keeps a trajectory for dwelling completions and have predicted the following number of new properties over the next three years:-

2019/20 = 976  
2020/21 = 864  
2021/22 = 777  
Total = 2617

However, the projected completions figure for 2018/19 was 516 but the actual completions to date remain at 450.

The increase in new domestic developments will see a rise in our Council Tax Income and will also benefit under the new homes bonus scheme.

### **Premium Charges**

Since 1 April 2013, Council Tax Legislation allows local authorities to charge a Premium Council Tax for long-term empty properties. The additional premium charge is 50%. In essence, we can charge 150% for long-term empty properties. For Council Tax Premium Charge purposes, a long-term property empty property is a property that has been unoccupied and unfurnished, and has been for a continuous period of 2 years or longer.

In the 2017 Budget, the Chancellor announced that local authorities could increase the premium charge from 50% to 100%, which will effectively double the amount of Council Tax a customer will be required to pay for a long-term empty property.

However, the legislation was not passed in time to charge 100% premium charge from 1 April 2018 and is currently expected to be available from 1 April 2019.

Table 1 shows the additional income raised since the Premium Charge as applied in 2013.

<b>Year</b>	<b>Number of Accounts</b>	<b>Value of Premium Charge (£)</b>	<b>Amount Retained by RBC (£)</b>	<b>Number of Accounts in Arrears</b>	<b>Value of Arrears (£)</b>
<b>2013</b>	131	50,637	6,482	2	2,105
<b>2014</b>	138	53,587	6,859	4	5,078
<b>2015</b>	80	35,980	4,605	4	4,589
<b>2016</b>	117	47,903	6,132	5	5,426
<b>2017</b>	165	63,389	8,114	5	6,212
<b>Total</b>	<b>631</b>	<b>251,497</b>	<b>32,192</b>	<b>20</b>	<b>23,409</b>
<b>Average</b>	<b>126</b>	<b>50,229.34</b>	<b>6,438.32</b>	<b>4</b>	<b>4,682</b>

Table 2 shows the additional income raised should we have charged 100% premium over this period

<b>Year</b>	<b>Number of Accounts</b>	<b>Value of Premium Charge (£)</b>	<b>Amount Retained by RBC (£)</b>	<b>Number of Accounts in Arrears</b>	<b>Value of Arrears (£)</b>
<b>2013</b>	131	101,274.94	12,963.19	2	4,209
<b>2014</b>	138	107,174.22	13,718.30	4	10,156
<b>2015</b>	80	71,959.50	9,210.82	4	9,177
<b>2016</b>	117	95,806.04	12,263.17	5	10,852
<b>2017</b>	165	126,778.68	16,227.67	5	12,424
<b>Total</b>	<b>631</b>	<b>502,993.38</b>	<b>64,383.15</b>	<b>20</b>	<b>46,819</b>
<b>Average</b>	<b>126</b>	<b>100,598.68</b>	<b>12,876.63</b>	<b>4</b>	<b>9,363.75</b>

### **Impact on Residents**

The number of properties affected by the change to the Premium Charge would be an average of 126 a year, since we introduced the empty charge. This is against 40,211 properties we currently have on our database.

However, all residents in the borough would benefit from these changes because:-

- Empty homes are looked as receiving many of the benefits of local facilities (police and fire) for less than the normal rate. Therefore, empty homes are not contributing as much to the local economy.
- Try to discourage empty homes to free up housing.
- Empty properties as well as serving no useful housing purpose often attract a disproportionate amount of public resources. Sometimes becoming an environmental nuisance or the target for anti-social behaviour and neighbour complaints.
- Additional income received can be used for services within Rushmoor.

Since we began looking to revise our premium charges, further information has been provided that suggests Government are going to make additional changes to the Premium charge which mean we can charge higher premium charges dependent on how long the property has been empty for. We are still awaiting further information and guidance on this.

What we know is that the Government is also publishing revised guidance for councils on the use of premiums to ensure the policy does not affect low-demand areas or hinder complex regeneration schemes.

The premium charges we believe we can apply are:-

Empty for:-

- >2 years = 100%
- > 5 years = 200%
- > 10 years = 300%

At present, we have 101 properties that are currently in receipt of a premium charge. This is broken down as follows:-

Number of years empty	Number of Properties
2 -5 Years	59
5 – 10 Years	31
Greater than 10 Years	11
<b>Total</b>	<b>101</b>

However, it is worth noting that Vivid Housing owns 63 properties that pay Premium charge. These properties are earmarked for demolition to make way for the next phase of the North Town development.

If we remove these 63 properties, the results look more like this.

<b>Number of Years Empty</b>	<b>Number of Properties</b>
<b>2 – 5 Years</b>	<b>19</b>
<b>5 – 10 Years</b>	<b>8</b>
<b>Greater than 10 years</b>	<b>11</b>
<b>Total</b>	<b>38</b>