CABINET | **COUNCILLOR PAUL TAYLOR**
CORPORATE SERVICES
PORTFOLIO HOLDER

15 OCTOBER 2019 | **REPORT NO. FIN1928**

KEY DECISION? ~~YES~~/NO

MEDIUM TERM FINANCIAL STRATEGY 2020/21 TO 2023/24

SUMMARY:
This report sets out the Medium Term Financial Strategy (MTFS) and the budgetary framework to support the preparation of the 2020/21 budget.

The report also provides an update on the financial position of the Council and sets out the financial forecast over the medium-term for financial planning purposes. Final decisions on the overall budget and Council Tax level will be made by Council in February 2020.

RECOMMENDATIONS:
That Cabinet
(i) Approves the Budget Strategy 2020/21 as set out in section 6 of the report
(ii) Notes the Medium Term Financial Forecast and associated risks and uncertainties as outlined in sections 7 and 8 of the report.

1. INTRODUCTION/BACKGROUND

1.1. This report will inform members of the current financial position as set out in the Council's Medium Term Financial Strategy (MTFS), which is shown in Appendix A. The report proposes a strategy for addressing the (projected) core budget deficit highlighted in the MTFS and models the options available to the Council regarding the level of Council Tax for 2020/21.

1.2. Section 6 of the report outlines the approach that will be taken when setting the detailed revenue and capital budgets for 2020/21.

2. STRATEGIC CONTEXT

2.1. In common with many local authorities, Rushmoor Borough Council continues to face significant financial challenges over the medium term. The Council will need to continue to take difficult decisions around resource allocation.

2.2. The Medium Term Financial Strategy 2019-22 report from October 2018 set out four key drivers of change that affect the MTFS (Population, Economy, Policy Decisions, Rushmoor 2020). Whilst these drivers are still relevant and can assist members in decision making, the level of uncertainty around national policy issues (Brexit in particular) and the global economy makes it more difficult to predict the impact on the Council.

2.3. This report provides members with an update on the key drivers, with an emphasis on the economic factors that are likely to have an impact on the budget and the MTFS. **Section** 3 of the report sets out the Economic context, **Section 4** of the report provides an update on population and demographic changes, **Section 5** sets out the Local Government Funding context, with **Section 6** reviewing the key assumptions that inform the 2020/21 budget and the MTFS 2020/21 to 2023/24.

3. NATIONAL AND GLOBAL ECONOMIC OUTLOOK

3.1. As outlined in Section 2 of the report, there is considerable uncertainty in the national and global economic outlook. The commentary below reflects the position at the time of writing (late September 2109), and will, of course, be subject to change.

3.2. At its meeting ending on 18 September 2019, the Monetary Policy Committee (MPC) voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the current level of Quantitative Easing (QE).

3.3. Since the MPC’s previous meeting, the trade war between the United States and China has intensified, and the outlook for global growth has weakened. Monetary policy has been loosened in many major economies. Shifting expectations about the potential timing and nature of Brexit have continued to generate heightened volatility in UK asset prices, in particular the sterling exchange rate has risen by over 3½%.

3.4. Brexit-related developments are making UK economic data more volatile, with GDP falling by 0.2% in 2019 Q2 and now expected to rise by 0.2% in Q3. The MPC judged that underlying economic growth has slowed but remains slightly positive. Brexit uncertainties have continued to weigh on business investment, although consumption growth has remained resilient, supported by continued growth in real household income.

3.5. CPI inflation unexpectedly fell to 1.7% in August, from 2.1% in July, and is forecast to remain slightly below the 2% target in the near term. However, the recent attack on Saudi Arabia’s oil facilities and subsequent increase in the oil price shows how sensitive prices can be.

3.6. The labour market appears to remain tight, with the unemployment rate having been just under 4% since the beginning of this year. Annual pay growth has strengthened further to the highest rate in over a decade. Unit wage cost growth has also risen, to a level above that consistent with meeting the inflation target in the medium term. The labour market does not appear to be tightening further, however, with official and survey measures of employment growth softening.

3.7. For most of the period following the EU referendum, the degree of slack in the UK economy has been falling and global growth has been relatively strong. Recently, however, entrenched Brexit uncertainties and slower global growth have led to the re-emergence of a margin of excess supply. Increased uncertainty about the nature of EU withdrawal means that the economy could follow a wide range of paths over coming years. The appropriate response of monetary policy will depend on the balance of the effects of Brexit on demand, supply and the sterling exchange rate.

3.8. It is possible that political events could lead to a further period of entrenched uncertainty about the nature of, and the transition to, the United Kingdom's eventual future trading relationship with the European Union. The longer those uncertainties persist, particularly in an environment of weaker global growth, the more likely it is that demand growth will remain below potential, increasing excess supply. In such an eventuality, domestically generated inflationary pressures would be reduced.

3.9. The impact on the Council is likely to be through the level of Inflation and Interest Rates. This will affect the cost of service delivery and decisions around treasury management and the affordability of the Capital Programme supported by debt financing. In addition, weaker global economic growth may have a direct impact on the local economy.

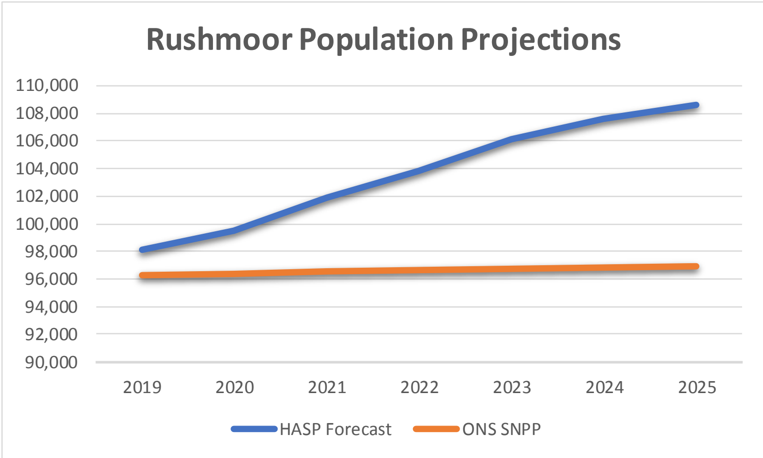
3.10. The Council will also need to consider the impact of changes in the housing market. The Council's regeneration programme and other significant housing schemes may be at risk if there is a downturn in the housing market. Uncertainty around Brexit has led to a softening in the housing market, although this may not be representative of any longer-term trend.

4. POPULATION AND DEMOGRAPHIC CHANGE

4.1. As highlighted in the October 2018 MTFS report, population and demographic change should be considered over the medium-term strategy period to ensure that service delivery budgets reflect the demand a growing and changing population may put on them.

4.2. The Table and graph below show the population projections from two different methodologies – Sub-National Population Projection (which analyses past information to form a trend) and Hampshire Small Study Area Projection (based on projected housing starts). The current Office for National Statistics (ONS) mid-2018 population estimate indicates Rushmoor's population is 95,142

Table 1: Population projections



Rushmoor	TOTAL	Aged 0-17	Aged 18-64	Aged 65-89	Aged 90+
2019 Estimate *	98,150	21,458	61,517	14,376	799
2025 Estimate *	108,568	23,574	66,590	17,399	1,005
Change (2019 to 2025)	**10,418**	**2,116**	**5,073**	**3,023**	**206**
% Change	10.61%	9.86%	8.25%	21.03%	25.78%
2019 Estimate **	96,274	21,127	60,973	13,496	679
2025 Estimate **	96,936	20,754	59,947	15,461	775
2041 Estimate **	99,045	19,532	57,002	20,780	1,731
Change (2019 to 2025)	**662**	**(373)**	**(1,026)**	**1,965**	**96**
% Change	0.69%	-1.77%	-1.68%	14.56%	14.20%

* Source: Hampshire County Environment Department's 2018 based Small Area Population Forecasts

** Source: ONS 2016-Based Sub-National Population Projections

4.3. Clearly, there is a marked difference in the projections, with the HSAP forecasts, which incorporate planned additional housing, show a much sharper increase in the population. The Council will need to consider the impact such a change in population may have on its budget – particularly around Waste and Recycling and the provision of leisure and recreation facilities for example.

4.4. It is also worth noting the demographic trend towards and older population. The proportion of the borough's population that will be aged 65 and over will increase between 2019 and 2025 and the Council will need to consider the way in which services can be accessed.

5. LOCAL GOVERNMENT FUNDING

5.1. The provisional settlement for 2019/20, announced on 13 December 2018, was the final year of the multi-year settlement and did not provide any indication of funding for 2020/21 and beyond.

5.2. Alongside the 2019/20 settlement announcement, the Government issued two consultation documents that were likely to have a significant impact on the nature and distribution of local government funding from 2020/21. Changes in funding were expected through the Review of Relative Needs and Resources (also known as the Fair Funding Review) and the move to 75% Business Rates Retention which were to be introduced from April 2020.

5.3. However, in the recent Spending Round announcement on 04 September 2019 the Government have announced that these changes have been postponed until April 2021.

<u>Housing, Communities and Local Government Committee report on Local Government Finance</u>

5.4. The committee published their report on Local Government Finance and the 2019 Spending Review in August 2019. The report looked at the way in which local government is financed, both by government and through Council Tax, and local government's responsibilities and the services it provides.

5.5. The report made several recommendations around funding for social care, reforming the business rates retention system, and for government to provide multi-year settlements to allow councils to plan ahead.

<u>Spending Round</u>

5.6. The Spending Round, which was announced in September 2019, set out the government's spending plans for 2020/21.

5.7. In terms of the main announcements:

- Core Spending Power is expected to rise by £2.9 billion in cash terms (£2.0 billion in real terms). It is worth noting that CSP includes assumptions about increase in Council Tax and the tax base.
- Additional £1 billion grant for adults and children's social care and the continuation of existing social care grants (Better Care Fund, Winter Pressures).
- 'Negative RSG' will continue to be funded (although subject to confirmation in the provisional settlement)
- Rural Services Delivery Grant to continue
- Additional £54m funding for Homelessness
- Referendum principles for Council Tax and the Adult Social Care Precept were outlined, subject to consultation in the finance settlement.

5.8. The Government issued a Technical consultation on the Local Government Finance Settlement 2020/21 on 03 October. At a broad level, the technical consultation focuses on the announcements contained within the Spending Round.

- Baseline Funding Levels will be uprated in line with the change in the small business rates multiplier (this is linked to CPI)
- No change to mechanism for tariff/top-ups
- Government minded to pay-off negative RSG in full through foregone business rates receipts (as it has done for 2019/20)

- 2% or £5 flexibility on Council Tax proposed for Shire Districts (interestingly there's no reference to this being higher in the previous two years)
- No decision on what Council Tax principles there will be for Police and Crime Commissioner – this will be announced at provisional settlement
- Increased Better Care Fund continues on same basis as last year
- Social Care funding – Hampshire County Council to receive £24.961m in total
- Continuation of Rural Service Delivery Grant worth £81m (awarded to top-quartile of local authorities on the basis of the super-sparsity indicator)

5.9. Importantly for Rushmoor, the consultation document does set out the Government's view on New Homes Bonus, although very little scheme detail is provided. Legacy payments will continue to be funded, and the government confirms that a new round of allocations will be made for 2020/21.

5.10. However, the government has indicated that it will confirm the proposals on the baseline (the element of growth that is not rewarded – currently set at 0.4% of council tax base weighted by band) at the provisional settlement. The approach for 2020/21 bonus payments is that they will not result in legacy payments being made in subsequent years.

5.11. Question 7 of the consultation is worth noting as it does give an insight into the government's funding priorities for local government:
"Do you agree that there should be a new round of 2020-21 New Homes Bonus allocations for 2020-21, or would you prefer to see this funding allocated for a different purpose, and if so how should the funding be allocated?"

<u>75% Business Rates Retention (BRR) & Review of Relative Needs and Resources</u>

5.12. As indicated in paragraph 5.3 of the report, the introduction of 75% Business Rates Retention and the Review of Relative Needs and Resources has been postponed until April 2021.

5.13. Section 4 of the Revenue Budget, Capital Programme and Council Tax Level report to Cabinet in February 2019 provided members with an overview of the changes the Government were consulting on at the time.

5.14. Given the expected introduction of these changes was due to be April 2020, the MTFS at the time assumed a significant reduction in the level of Government Funding (£1.174m – approximately 30% reduction in retained business rates income). Considering the Spending Round announcement, the MTFS assumes no reduction for 2020/21 but maintains the view that there will be a reduction from April 2021.

5.15. Since February, the Systems Design Working Group have considered several technical areas such as how growth will be measured in the new system and the timing of the rating list and system reset. A further technical consultation is expected that will help inform the way in which the 75% system will operate.

New Homes Bonus (NHB)

5.16. The spending round confirmed that the New Homes Bonus scheme will continue in 2020/21. However, the Government are yet to confirm the position on legacy payments, whether the 0.4% threshold applied to the calculation will be amended, and what the future scheme will look like. A consultation is expected on this over the Autumn.

5.17. The tables below shows the assumptions made in February 2019 MTFS around future New Homes Bonus payments. A number of scenarios were considered with a prudent view taken recognising the direction of travel the Government have indicated around future funding (Scenario **Reduced** as highlighted was included in the MTFS). The second of the tables follows the same methodology but with updated delivery figures (which based on draft figures for 2019/20 delivery are expected to be lower).

Tables 2a to 2c: New Homes Bonus

NHB Scenarios	2018/19 Original (£'000)	2019/20 (£'000)	2020/21 Forecast (£'000)	2021/22 Forecast (£'000)
New Homes Bonus (Legacy only)	1,095	1,010	710	548
New Homes Bonus (Stops)	1,095	1,010	0	0
New Homes Bonus (No change)	1,095	1,010	1,388	1,819
New Homes Bonus (Reduced)	1,095	1,010	936	972
New Homes Bonus (Pessimistic)	1,095	1,010	810	748

NHB Scenarios	2019/20 (£'000)	2020/21 Forecast (£'000)	2021/22 Forecast (£'000)	2022/23 Forecast (£'000)	2023/24 Forecast (£'000)
New Homes Bonus (Legacy only)	1,010	710	548	209	0
New Homes Bonus (Stops)	1,010	0	0	0	0
New Homes Bonus (No change)	1,010	1,080	898	909	1,000
New Homes Bonus (Reduced)	1,010	834	665	442	333
New Homes Bonus (Pessimistic)	1,010	810	748	509	400

5.18. Considering the technical consultation document proposals on New Homes Bonus outlined earlier, an emerging view is that the either (a) only legacy payments are honoured (with no new reward incentive) or (b) that NHB stops completely (as funding is reprioritised). The table below shows the additional impact on the MTFS should the Government only make legacy payments or stop NHB entirely.

New Homes Bonus - budget pressure if funding is curtailed	2019/20 (£'000)	2020/21 Forecast (£'000)	2021/22 Forecast (£'000)	2022/23 Forecast (£'000)	2023/24 Forecast (£'000)
Reduction in funding (a) Legacy only	0	123	117	233	333
Reduction in funding (b) Stops	0	834	665	442	333

5.19. Should the Government stop New Homes Bonus entirely, the Council would face a potential loss of £2.274m of funding over the medium-term. The Council would need to find additional savings and efficiencies to offset the loss of NHB.

5.20. Given the lack of clarity on the level of funding from New Homes Bonus for 2020/21 and beyond, the forecast within the MTFS has only been updated to reflect the technical consultation and reduced housing delivery expectations. A more comprehensive update to the NHB forecast will be completed after the finance settlement is published. Additional work will be undertaken on estimating the delivery of new homes in the borough over the MTFS period to ensure any future forecast reflects the current position.

Council Tax

5.21. As highlighted in paragraph 5.7 of this report, the Government announced the Council Tax referendum principles in the Spending Round. For 2020/21, the maximum increase in Council Tax for District/Borough Councils will be 2% or £5, whichever is the greater. This is a reduced limit over the previous two years where the maximum increase allowable was 3% or £5, whichever was the greater.

5.22. Whilst the principles are subject to consultation through the finance settlement, the lower threshold will reduce the amount of Council Tax the Council could choose to raise over the MTFS period. The February 2019 MTFS assumed the 3% threshold level would continue.

5.23. The table below shows the impact of the potential reduced Council Tax threshold limit. For 2020/21 the difference between a 2.99% increase and a £5 increase is a reduction of £35,466, increasing to £181,630 by 2023/24. The cumulative reduction in the Council Tax forecast is £419,836.

5.24. The forecast assumes a 1% increase in the Tax base but does not include the impact of future housing delivery due to uncertainty. An updated forecast of the tax base will be included in the budget reports to Cabinet and Council in February 2020.

Table 3: Council Tax forecast

Year	Taxbase forecast	Change (%)	Band D Rate (£)	Precept (£)	Increase in Precept (£)	Precept (previous assumption) (£)	Reduction in assumed Council Tax (£)	Cumulative reduction in assumed Council Tax (£)
2019/20	31,352.21	1.23%	204.42	6,409,019		6,409,019	0	0
2020/21	31,665.73	1.00%	209.42	6,631,437	222,418	6,666,903	(35,466)	(35,466)
2021/22	31,982.39	1.00%	214.42	6,857,664	226,227	6,934,742	(77,078)	(112,543)
2022/23	32,302.21	1.00%	219.42	7,087,752	230,088	7,213,414	(125,662)	(238,205)
2023/24	32,625.24	1.00%	224.42	7,321,755	234,004	7,503,386	(181,630)	(419,836)

Balances & Reserves Strategy

5.25. The Council holds balances and reserves to provide financing for future expenditure plans. The Council held £14.064m in balances and reserves at the end of the last financial year is set out in the table below along with the original forecast for 2019/20.

Table 4: Balances and Reserves forecast

Balances and Reserves	2018/19 Closing Balance (£'000)	Transfer in (£'000)	Transfer Out (£'000)	2019/20 Forecast (£'000)
General Fund Balance	(2,000)			(2,000)
Stability & Resilience Reserve	(4,869)	(483)	0	(5,352)
Service Improvement Fund	(1,000)	(453)	93	(1,360)
Commercial Reserve	(475)	(2,000)	405	(2,070)
s106/SANG/Commuted Sums	(3,088)	0	0	(3,088)
Other Earmarked Reserves	(2,634)	0	109	(2,525)
Estimated Balances at 31 March	**(14,064)**	**(2,936)**	**607**	**(16,393)**

5.26. The Council holds these sums for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing [Stability and Resilience Reserve, Commercial Reserve];
- a risk-assessed contingency to cushion the impact of unexpected events or emergencies [General Fund Balance];
- a means of building up funds to meet known or predicted requirements

5.27. A review of the balances and reserves and a comprehensive strategy will be completed and presented to Cabinet and Council in February alongside the revenue and capital budgets for 2020/21.

6. 2020/21 BUDGET STRATEGY - ASSUMPTIONS

6.1. The 2020/21 Budget Strategy sets out the key assumptions that will be made when reviewing the Council's revenue budgets for 2020/21.

Government Funding & Council Tax

6.2. As discussed earlier in the report, there is very little certainty around the level of Government Funding that the Council will receive in future years.

6.3. The announcement in the Spending Round of a delay in the introduction of 75% Business Rates Retention and the Review of Relative Needs and Resources has been postponed until April 2021 is welcome. However, the detailed position for the Council will not be known until December 2019 and is unlikely to provide details of funding beyond 2020/21.

6.4. The table below sets out the assumptions made on Government funding for 2020/21 and over the MTFS period and reflect the updated information discussed in Section 7 of the report.

Table 5: Government Funding assumptions

Government Funding	2019/20 (£'000)	2020/21 Forecast (£'000)	2021/22 Forecast (£'000)	2022/23 Forecast (£'000)	2023/24 Forecast (£'000)
Business Rates Retention	3,836	3,913	3,991	4,071	4,152
Risk: BRR Baseline Reset	0	0	(1,174)	(1,174)	(1,174)
Risk - Fair Funding Review	0	0	0	0	0
Revenue Support Grant	0	0	0	0	0
Subtotal	**3,836**	**3,913**	**2,817**	**2,897**	**2,978**
New Homes Bonus	1,010	834	665	442	333
Other Grants	36	0	0	0	0
TOTAL Government Funding	**4,883**	**4,746**	**3,482**	**3,339**	**3,312**

Pay and Price Inflation

6.5. The budget will be prepared on a 'standstill' basis in that no price inflation will be added other than to contractual commitments to pay an annual inflationary increase such as contracts and software licence agreements.

6.6. Salary budgets for 2020/21 will be increased by 2% to reflect the longer-term assumptions made in the MTFS around future pay awards. Members may be aware that the three largest local government unions have submitted a pay claim for would see the lowest paid staff earning at least £10 per hour, and all other council employees receiving a 10% pay rise. Negotiations with local government and the unions are ongoing, but it is considered prudent to budget at a level that is sustainable and in-line with previous pay award levels.

6.7. The Bank of England published the August CPI and RPI figures on 18 September 2019, with the September inflation figures due to be available on 16 October 2019. These figures are generally used as the basis for uprating of some welfare benefits. An allowance is made in the MTFS each year for the impact of inflation pressure within the General Fund and this will be reviewed over the Autumn.

Fees & Charges

6.8. Cabinet approved the methodology for the annual review of fees and charges made for Council services (Report No. FIN1624). Budget holders are required to review the fees and charges as part of the budget setting process to ensure they are set at an appropriate level and that charges are transparent and show a clear methodology for their increase.

6.9. Whilst the focus is on the level of charge made for services, budget holders are encouraged to review and understand the cost drivers within their service as cost control is an integral part of the annual review of fees and charges process.

Commercial Property

6.10. As highlighted in the Budget report to Cabinet and Council in February 2019, the Council is increasingly reliant on income from Commercial Property to provide funding for other Council services. Given the risk in holding commercial property (e.g. occupancy rates and fluctuations in the property market), income and expenditure budgets associated with the portfolio will be reviewed. This will help ensure the Council is budgeting at the appropriate level and that risks to income and expenditure changes across the medium term can be incorporate into the MTFS and Capital Programme.

6.11. The budget setting process is likely to propose that a proportion of commercial income is set aside in the Commercial Reserve each year to provide and ongoing funding stream to manage the portfolio.

6.12. Following the Council's acquisition of commercial properties to increase its income the Property Service has struggled to cope with the additional demands. The Council's portfolio is complex and is of significant size. The approach adopted by the Council needs to change and actions have been taken to improve the situation and to respond to the concerns of Members.

6.13. The Council recently approved an Asset Management Strategy that lays out the framework for its properties. In addition, the Council has undertaken a review (by LSH Investment Management, a wholly owned subsidiary of Lambert Smith Hampton Group) of a tranche of its properties and has commissioned a further review of a second tranche. Details of both reports will be reported to Members in due course with identified priority actions.

6.14. The Council has also commissioned a further piece of work by LSH Investment Management to develop a property investment strategy. Members will be invited to take part in a series of workshops and meetings to shape this strategy. The outcome being that a strategy will be presented to Members for approval in due course as well as a full update report on the performance of the portfolio.

6.15. Members will recall that a Commercial Property Reserve was established to provide funding to mitigate some of the financial risk associated with the portfolio. For 2019/20, the costs associated with the LSH Investment Management advice can be funded from the reserve to secure the appropriate external advice allowing the Council to manage its property on a commercial basis.

Local Government Pension Scheme (LGPS)

6.16. An actuarial review of the Local Government Pension Scheme is currently being undertaken with indicative funding results expected in the Autumn. Provision was made in the MTFS for increases to the employer's contribution to the Fund up to the next actuarial review due in 2022/23.

6.17. Following consultation with the Hampshire authorities earlier in 2019, the Hampshire Pension Fund Panel and Board approved a number of structural changes to the way employers are grouped together for funding purposes.

6.18. The 2019 triennial valuation provided an opportunity to make these structural changes because there has been a material improvement in the funding level since the last valuation. It has not been possible to make changes prior to this valuation due to the financial impact it would have had on employers through the allocation of the fund deficit.

6.19. The structural changes have effectively created smaller funding groups for Academies and for the Town and Parish Councils. The Admitted Bodies Group (ABG) is maintained (which includes the Hampshire local District/Borough and City/County Councils).

6.20. The benefit is that this allows the fund actuary to calculate individual employer contribution rates (rather than there being a common rate amongst the ABG. This had the disadvantage that decisions taken by other ABG members in terms of workforce planning had an impact on the level of contribution made by Rushmoor.

6.21. In addition, the changes also opens-up the opportunity for ABG members to pre-pay contributions for the 3-year period post actuarial review. Subject to agreement with the fund actuary and the accounting treatment, this would allow the Council to benefit from a discount on the total amount due over that period, effectively reducing the cash amount that is required if paid annually.

6.22. The changes will be made as part of the 2019 actuarial review, with the first impact on contribution rates from 01 April 2020. Given the impact of these changes and the review is not known at this stage, the MTFS assumes a continuation in contribution levels consistent with the 2016 Actuarial review. Any change to the current level of funding will be included in the February 2020 MTFS update.

Interest Rates

6.23. The Bank of England base rate was increased from 0.50% to 0.75% in August 2018 and was held at this level at the Monetary Policy Committee meeting in September 2019.

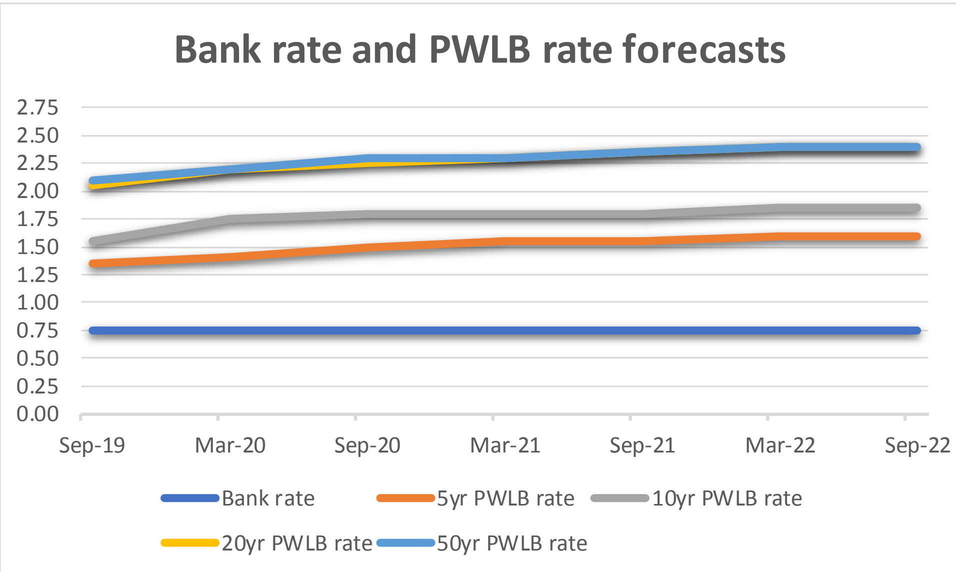
6.24. Given the uncertainties around Brexit, it is difficult to predict what impact there will be on interest rates in the near future. The latest forecasts from our Treasury advisors (August 2019) suggest that the bank base rate will remain at 0.75% for the foreseeable future.

6.25. However, there are a number of substantial risks in the forecasts, largely around expectations around Brexit outcomes, the global economic position and on-going political uncertainty in the UK and abroad. The US Federal Reserve has cut its advisory base rate twice in 2019, with the ECB restating QE.

6.26. The table below indicates and expectation that the bank base rate will remain unchanged for the foreseeable future, with PWLB rates increasing slightly over the same period. However, there is the possibility that the Bank of England base rate may reduce in the short-term due to the economy's persistent weakness, as indicated by MPC member Michael Saunders at the end of September – *"If the UK avoids a no-deal Brexit, monetary policy also could go either way and I think it is quite plausible that the next move in the bank rate would be down rather than up."*

6.27. Bank base rate and PWLB forecasts are due to be updated in November 2019 following the Bank of England's monetary policy committee meeting in November.

Table 6: Bank Base rate and PWLB Rates



	Sep-19	Mar-20	Sep-20	Mar-21	Sep-21	Mar-22	Sep-22
Bank rate	0.75	0.75	0.75	0.75	0.75	0.75	0.75
5yr PWLB rate	1.35	1.40	1.50	1.55	1.55	1.60	1.60
10yr PWLB rate	1.55	1.75	1.80	1.80	1.80	1.85	1.85
20yr PWLB rate	2.05	2.20	2.25	2.30	2.35	2.40	2.40
50yr PWLB rate	2.10	2.20	2.30	2.30	2.35	2.40	2.40

Treasury Management - Investment Returns

6.28. The Council continues to benefit from strong returns from the Treasury Management investments. The Council holds around £25m of externally managed pooled funds and is continuing to achieve annual returns of around 4.3% - the highest return of all Arlingcloses's clients.

6.29. Treasury Management income is forecast to remain at around £1.3m over the MTFS period, but as with all treasury investments, is reviewed regularly to ensure appropriate diversification is in place and the principles of Security, Liquidity and Yield are met.

Treasury Management - Borrowing costs and MRP

6.30. The Council has undertaken significant external borrowing to finance its capital programme and currently manages a debt portfolio of £80m. The Council's Treasury Management Strategy, as approved by Council in February 2019, sets out the approach taken to borrowing.

6.31. The Council's main objective when borrowing money is to maintain an appropriate low-risk balance between securing low interest rate costs and achieving cost certainty over the period for which funding is required. Given the low interest rate environment, there is a financial benefit to the Council of taking advantage of short-term borrowing (typically 3-6 month duration), but at the same time there is a risk around refinancing those short-term loans.

6.32. During the current financial year, the Council has sought to mitigate the refinancing risk by borrowing over longer period (between 1 and 2 years). As the Council works through its asset management plans and revises the Capital Programme, there may be opportunities to refinance its borrowing over a longer period without incurring significant additional cost due to the current position on long-term PWLB borrowing.

6.33. It is likely that the cost of borrowing in 2019/20 will come in below the budgeted £1.056m, in part due to lower than anticipated interest rates but also due to a lower level of borrowing. Estimates for 2020/21 and beyond will be undertaken once the Capital Programme has been reviewed and will be included in the budget papers for Cabinet and Council in February 2020.

7. MEDIUM TERM FINANCIAL STRATEGY 2020/21 TO 2023/24

7.1. The Medium Term Financial; Strategy projects forward the likely income and expenditure for the next four years and supports delivery of the Council's priorities and the Council Business Plan.

Balanced Budget Requirement

7.2. The council is legally required to set a balanced budget for the coming year. The Budget report to Council in February 2019, provided a forecast of the Council's core budget position over the MTFS period:

- 2020/21 – Surplus of £666k
- 2021/22 – Deficit of £578k

7.3. An important part of the strategy for financial sustainability is that the Council will need to continue to deliver efficiencies and savings over the coming years. The Council has in previous year utilised the Stability and Resilience reserve over the medium-term strategy period to help maintain a balanced budget position, although the Council will need to ensure it does not become reliant on this and requires a balance of savings, efficiencies, additional income and cost reductions.

Savings Plan

7.4. The Council has a good track record of delivering budget and efficiency savings, and this needs to be sustained over the medium term. The Budget report to Cabinet and Council in February 2019 outlined the Savings Plan for the period 2019/20 to 2021/22, which is set out in the Table below.

Table 7a: Savings Plan

Savings to be delivered over MTFS	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)
Organisational Redesign	300	1,300	1,300
Better Procurement & major contract renewal	230	230	230
Commercial Property Investment	3,191	3,718	3,718
Income Generation (Other)	0	50	50
Reduction in service costs	151	151	151
Reviewing fees, charges and concessions	59	94	129
Subtotal	**3,931**	**5,543**	**5,578**
Vacancy Monitoring	325	330	335
TOTAL Savings	**4,256**	**5,873**	**5,913**

7.5. As reported to Cabinet in August 2019, the Council has made good progress in achieving the savings target, although there is still a requirement to deliver further savings during the year to ensure there is not a negative impact on the Council financial position in the short and medium term. The Table below highlights the last reported position. The forecast shortfall in savings was in part offset but a positive variation within service budgets and on investment income returns. The Q2 position will be reported to Cabinet at their meeting in November.

Table 7b: Savings Plan (Q1 performance)

Savings to be delivered over MTFS	2019/20 Target (£'000)	Q1 Achieved (£'000)	Savings still required (£'000)
Organisational Redesign	300	20	280
Better Procurement & major contract renewal	230	253	(23)
Commercial Property Investment	3,191	2,765	426
Income Generation (Other)	0	0	0
Reduction in service costs	151	160	(9)
Reviewing fees, charges and concessions	59	0	59
Subtotal	**3,931**	**3,198**	**733**
Vacancy Monitoring	325	98	227
TOTAL Savings	**4,256**	**3,296**	**960**

7.6. The Savings Plan for the period 2020/21 to 2023/24 will be updated over the coming weeks and will be presented to Cabinet and Council in February 2020. It is worth noting at this stage that there will be changes to two key savings plan areas – Organisation Redesign and Commercial Property Investment.

7.7. Members will be aware that Cabinet Agenda includes a report on the ICE Modernisation and Improvement Programme and sets out the way in which Organisational Redesign savings will be delivered through the ICE Programme.

7.8. The Savings Plan currently includes a savings target for Organisational Redesign (£1.3m in 2020/21) and Vacancy Monitoring (£330k in 2020/21). These savings will now be delivered within the ICE Programme through Workstream 3 and the Savings Plan will be updated over the coming weeks to reflect the phasing and delivery expectations.

7.9. Savings associated with workstream 4 will be identified as part of the budget setting process for 2020/21 and will be finalised in the budget paper in February. These are anticipated to include savings from procurement, review of fees and charges, Improved cost and demand management, and Income from commercial strategy and enhanced asset management. It is likely that savings from this workstream will complement and balance the overall savings plan.

7.10. The Council is currently at an early stage with a number of projects that will deliver cost reductions and income streams over the medium-term. These ‘pipeline’ savings have not been included in the Savings Plan and MTFS as the projects either require a formal Cabinet/Council decision, or are subject to a detailed business case being prepared. These projects are expected to have a significant positive impact on the Council’s finances. An update will be provided to members in February.

Table 7c: 'Pipeline' savings (estimated and will be subject to further detailed work before inclusion in the MTFS)

Pipeline Savings	2019/20 (£'000)	2020/21 Forecast (£'000)	2021/22 Forecast (£'000)	2022/23 Forecast (£'000)	2023/24 Forecast (£'000)
Additional Pipeline Savings (est)	0	(215)	(1,843)	(2,721)	(2,921)

7.11. Paragraphs 6.10 to 6.15 of this report set out the wider position with the Council's Commercial Property portfolio and the external advice commissioned from LSH Investment. This advice will help inform the expectations for income from the portfolio and update the Savings Plan accordingly.

7.12. In terms of Commercial Property Investment, the Council has not acquired any further investment properties other than those purchased in April 2019. The savings plan had assumed a further acquisition would have taken place by the end of Q2 of the financial year. As a result, there is a shortfall against the savings plan this year. The MTFS assumes that further acquisition will take place following the review of the property portfolio by LSH Investment Management in order to both meet the savings plan commitment and enhance, balance and optimise the property portfolio.

7.13. There is an inherent risk with savings targets - there is a risk that these are not be achieved in full or in the timeframe required. The savings targets will be subject to review over the coming weeks to ensure they can be achieved.

<u>Budget Pressures/Growth</u>

7.14. Hampshire County Council notified the Council in early September of proposed changes to Waste Disposal arrangements that forms part of the County's Transformation to 2021 Efficiency Programme.

7.15. The County have proposed that from 31 March 2021 that they will:

- Cease to pay Recycling Credits for recyclables for which provision has been made through the [Waste Disposal] contract
- Re-charge each Waste Collection Authority the cost of disposing of the contamination/non-recyclable materials within their dry mixed recycling deliveries
- Retain the income from the sale of all material recovery facility (MRF) processed recyclables

7.16. The estimated budgetary impact on Rushmoor is around £350k per annum, which has been included in the MTFS as a future budget pressure. The Council will need to consider options to mitigate this additional cost over the coming months.

7.17. At their meeting on 20 June 2019, the Council unanimously supported a motion acknowledging a Climate Emergency and developing a plan to become a carbon-neutral Council by 2030.

7.18. Members will need to consider their response to the climate emergency and as part of the budget setting process for 2020/21. Currently, there are no additional resources identified to support this priority.

MTFS 2020/21 to 2023/24

7.19. The table below shows the summarised MTFS and considers the assumptions made earlier in the report around funding and expenditure. It is worth noting that the level of uncertainty around future government funding is unprecedented, which has made forecasting the Council's finances beyond next year extremely difficult.

7.20. Service revenue expenditure budgets have not been updated for 2020/21 and beyond and at this stage reflect a flattening of the revised budget for 2019/20 after removing the impact of carry forwards. Detailed revenue estimates will be provided in February.

7.21. Therefore, members should view the period 2021/22 to 2023/24 as an indicative position. The MTFS will be updated over the coming weeks with a clearer expenditure position. However, the funding forecasts may only change significantly later in 2020 when the Government provides detailed technical information on the impact of the changes to local government funding.

Table 8: Summary MTFS

Item	2019/20 LAB (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Portfolio Net Expenditure	12,453	11,994	11,994	11,994	11,994
Corporate Items	(2,797)	1,147	2,578	3,184	3,796
Adjusted Budget	**9,656**	**13,141**	**14,572**	**15,178**	**15,791**
Budget Pressures	0	(63)	787	1,037	1,037
Savings Plan	(470)	(2,274)	(2,909)	(2,909)	(2,909)
Draft Net Revenue Budget	**9,186**	**10,804**	**12,450**	**13,306**	**13,919**
Funded by:					
Council Tax	6,409	6,631	6,858	7,088	7,322
Business Rates	3,836	3,913	2,817	2,897	2,978
New Homes Bonus	1,010	834	665	442	333
Other Funding	432	0	0	0	0
TOTAL Funding	**11,688**	**11,378**	**10,340**	**10,427**	**10,634**
Core Surplus / (Deficit)	**2,502**	**574**	**(2,111)**	**(2,879)**	**(3,285)**
Additional transfers					
to Commercial Property Reserve	(2,000)	0	0	0	0
to Stability & Resilience Reserve	0	0	0	0	0
to Service Improvement Fund	(502)	0	0	0	0
Core Surplus / (Deficit) after Transfers	**0**	**574**	**(2,111)**	**(2,879)**	**(3,285)**

7.22. As the table shows, the indicative position outlined for 2020/21 should allow the Council to set a balanced budget. This is largely due to the improved level of funding following the delay to changes in local government funding which will now be introduced in April 2021.

7.23. The table does show a significantly higher core deficit from 2021/22. This is due to a reduced expectation from New Homes Bonus, provision for inflation, and budget pressures arising from proposed changes from the County Council to Waste and Recycling.

7.24. As highlighted earlier in the report, the Savings Plan will be subject to a significant update over the coming weeks and will be reported to members in February.

7.25. Therefore, at this stage of the budget setting process, the expectation is that the level of the core deficit will reduce as detailed revenue budgets are prepared, the savings plan is updated, and the revenue impact of the capital programme is updated. An indication of the potential additional savings and the impact on the Core Deficit is shown in the table below:

Table 9: Impact on MTFS Core Deficit of Pipeline Savings

Impact of Pipeline Savings	**2019/20 (£'000)**	**2020/21 Forecast (£'000)**	**2021/22 Forecast (£'000)**	**2022/23 Forecast (£'000)**	**2023/24 Forecast (£'000)**
Core Surplus / (Deficit) as per MTFS	**2,502**	**574**	**(2,111)**	**(2,879)**	**(3,285)**
Additional Pipeline Savings (est)	0	215	1,843	2,721	2,921
Potential Core Surplus / (Deficit)	2,502	789	(267)	(158)	(364)

Impact on Balances and Reserves

7.26. Paragraphs 5.25 to 5.27 of the report set out the current position on balances and reserves. The level of the core deficit shown in the summary MTFS would have a significant detrimental impact on the Council's balances and reserves. The cumulative core deficit position over the medium-term period as indicated in the current MTFS is £7.702m which is not sustainable. The pipeline savings and review of the savings plan, as outlined earlier in this report, will reduce the level of the core deficit and reduce the call on reserve funding to support the revenue budget. As indicated in Table 9, this has the potential to reduce the core deficit to a much more sustainable level.

7.27. It must be stressed that members will consider the impact on balances and reserves of the 2020/21 revenue budget, MTFS, and Capital Programme in the reports to Cabinet and Council in February 2020.

8. CAPITAL PROGRAMME

8.1. The Capital Programme includes the costs of acquiring or maintaining fixed assets such as land, building or equipment and concentrates on delivering the Council key priorities around regeneration and investment in community facilities.

Capital Expenditure Forecast

8.2. The Council approved the current Capital Programme (2019/20 to 2022/23) in February 2019, with an updated programme reported to Cabinet in August 2019 based on the Quarter 1 Capital Monitoring position. An updated forecast will be provided to Cabinet based on the Quarter 2 position in November.

8.3. This report does not provide an update on the capital programme as the review of the capital programme is ongoing and will not be completed until later in the budget setting process.

Capital Finance

8.4. The Council has limited capital resources to support the capital programme and has become reliant upon external borrowing.

8.5. The MTFS includes estimates of the revenue cost of borrowing – interest payable and the minimum revenue provision (local authorities are required each year to set aside some of the revenue budget as provision for the repayment of debt). The estimates for interest payable and MRP will be updated once the review of the capital

9. IMPLICATIONS

Risks

9.1. This report has identified some specific risk around the Council's funding from Government. Whilst the Council has some certainty around the level of government funding in 2020/21, there is significant uncertainty for 2021/22 and beyond due to changes through the review of Relative Needs and Resources and Business Rates Retention.

9.2. Other risks to the Council include (but are not limited to) the following specific areas:

- Housing market – a slow down in the housing market could have an impact on the Council's wider regeneration plans and a number of key strategic housing sites across the Borough. There are indications of market uncertainty, largely in response to Brexit as buyers remain cautious. For the Council, where regeneration schemes includes housing development, there may be a requirement to continually assessment the financial viability of schemes to ensure they are able to deliver the required outcomes.
- Economy and Brexit – the impact of the UK leaving the European Union is difficult to quantify as the terms of the withdrawal and timing are not

known with certainty. The Council has a number of income streams that are linked to economic performance including fees and charges, treasury management activities, and commercial investment. A significant downturn in the economy could reduce the amount of disposable income available to residents, erode investment fund performance, and reduce the value of commercial property and rental income.

- Commercial property performance – the Council is increasingly reliant on income from commercial investment properties. Any shortfall in income or additional costs associated with managing the property portfolio will have an adverse effect on service delivery. To mitigate future variable income flows, a Commercial Property Reserve has been established. This will be reviewed as part of the Council Balances and Reserves Strategy.

Legal Implications

9.3. The Council through its Members has a legal obligation to set a balanced budget and the MTFS provides the information that will inform the approach to be taken in the budget setting process for early 2020 when reports will be taken to Cabinet and Council for approval.

Financial and Resource Implications

9.4. There are not considered to be any financial implications arising directly from this report. However, it is worth noting the indicative MTFS position shows a widening funding gap based on the assumptions made within this report. It is anticipated that significant work on the expenditure and savings plans will enable the funding gap to be reduced. An updated position will be included in the reports to Cabinet and Council in February 2020.

Equalities Impact Implications

9.5. None

10. CONCLUSIONS

10.1. The Medium Term Financial Strategy, as set out in Appendix A, provides a framework for managing the Council's financial position over the next four years and helps to ensure that resources are available to deliver against the Council Plan.

10.2. Whilst the Council has delivered a number of budget and efficiency savings against its Savings Plan, the Council should continue to review progress in the current financial year and identify further budget and efficiency savings over and above those contained within the MTFS.

10.3. The Council does face a financial challenge over the medium term, particularly given the uncertainty set out in this report with regard to the Government's proposed changes to local government funding.

10.4. The Council will need to ensure the adequate reserves are maintained over the medium term to mitigate the risks identified in this report. However, the use of reserves to deal with changes in the financial standing of the Council on an ongoing basis is not a long-term or sustainable plan. It does, however, enable the Council to mitigate against short-term changes, whilst allowing the Council to plan and implement effectively over the medium-term.

BACKGROUND DOCUMENTS:

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APPENDIX A

Item	2019/20 LAB (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Base Budgets					
Corporate & Democratic Services	5,799	5,671	5,671	5,671	5,671
Customer Experience & Improvement	279	169	169	169	169
Major Projects & Property	(4,802)	(4,949)	(4,949)	(4,949)	(4,949)
Operational Services	8,390	8,331	8,331	8,331	8,331
Planning & Economy	2,788	2,773	2,773	2,773	2,773
Portfolio Net Expenditure	**12,453**	**11,994**	**11,994**	**11,994**	**11,994**
Less: Capital Charges (Rev)	(1,964)	(1,964)	(1,964)	(1,964)	(1,964)
Less: Pension Adj (Rev)	(496)	(496)	(496)	(496)	(496)
Net Expenditure	**9,993**	**9,534**	**9,534**	**9,534**	**9,534**
Corporate Items					
MRP	1,410	2,669	3,141	3,141	3,141
Transfers To/From reserves	(1,426)	47	76	76	76
Other CI&E	(19)	(19)	(19)	(19)	(19)
Interest Payable	1,056	1,606	1,922	1,922	1,922
Investment Income	(1,358)	(1,372)	(1,372)	(1,372)	(1,372)
Subtotal	**(337)**	**2,931**	**3,749**	**3,749**	**3,749**
Adjusted Budget	**9,656**	**12,465**	**13,283**	**13,283**	**13,283**
Inflationary Provision					
Inflation (Pay)		280	560	840	1,120
Inflation (Contracts/Non-Pay)		200	350	500	650
Employer's Pension Contribution		196	379	555	738
Subtotal	**0**	**676**	**1,289**	**1,895**	**2,508**
Adjusted MTFP Position	**9,656**	**13,141**	**14,572**	**15,178**	**15,791**
Budget Proposals/Growth					
Reversal of Non recurring revenue items		(63)	(63)	(63)	(63)
Revenue - HCC Waste proposals			350	350	350
Revenue - Interest rate risk on investments			500	750	750
Subtotal	**0**	**(63)**	**787**	**1,037**	**1,037**
Savings Plan					
2019/20 Savings	(350)	(1,394)	(1,429)	(1,429)	(1,429)
Procurement/Contracts		(230)	(230)	(230)	(230)
Commercial Property		(600)	(1,200)	(1,200)	(1,200)
Salaries monitoring	(120)	(50)	(50)	(50)	(50)
Subtotal	**(470)**	**(2,274)**	**(2,909)**	**(2,909)**	**(2,909)**
Proposed Net Revenue Budget	**9,186**	**10,804**	**12,450**	**13,306**	**13,919**
Funded by:					
Council Tax	6,409	6,631	6,858	7,088	7,322
Business Rates Retention	3,836	3,913	3,991	4,071	4,152
Risk - BRR Baseline reset			(1,174)	(1,174)	(1,174)
Other Funding	36				
New Homes Bonus (Legacy)	1,010	710	548	209	0
New Homes Bonus (New)		370	350	700	1,000
New Homes Bonus (Assumed reduction)		(247)	(233)	(467)	(667)
Collection Fund - CT	97	0	0	0	0
Collection Fund - NNDR	299	0	0	0	0
TOTAL Funding	**11,688**	**11,378**	**10,340**	**10,427**	**10,634**
Core Surplus / (Deficit)	**2,502**	**574**	**(2,111)**	**(2,879)**	**(3,285)**
Additional Transfers					
to Commercial Property Reserve	(2,000)				
to Stability & Resilience Reserve					
to Service Improvement Fund	(502)				
Core Surplus / (Deficit) after Transfers	**0**	**574**	**(2,111)**	**(2,879)**	**(3,285)**