ANNEX 1

COUNCIL MEETING – 20th FEBRUARY 2020

AGENDA ITEM NO. 5 (1)

REVENUE BUDGET, CAPITAL PROGRAMME, AND COUNCIL TAX LEVEL

A report from the meeting of Cabinet held on 4th February 2020

1. COUNCIL REPORT

1.1 On 04 February 2020, Cabinet considered report FIN2007 and agreed recommendations on the budget and Council Tax requirement for 2020/21, subject to any amendments in the final Local Government Finance Settlement, or the operation of the collection fund, particularly in respect of the Business Rates Retention Scheme. Any changes associated with the delegation arrangements (which were agreed at Council on the 20th January 2014), or the final settlement figures, would be made by the Executive Head of Finance, in consultation with the Leader of the Council and the portfolio holder for Corporate Services.

1.2 Final estimates for business rates were completed on 31 January 2020 and the Local Government Finance Settlement was published on 06 February 2020 via a written ministerial statement. **There are no changes to the Settlement figures, from those previously reported to Cabinet. Estimates for Business Rates have improved by £142,000, with the additional surplus allocated to the Service Improvement Fund (£92,000) and Workforce Planning Reserve (£50,000)**.

1.3 The estimated General Fund balance at the close of 2020/21 of £2.0m therefore remains as previously approved by Cabinet for recommendation to Council.

1.4 Cabinet considered the report from the Council Tax Support Task and Finish Group at their meeting on 16 December 2019 (Report No: FIN1934). Cabinet accepted the proposal from the Group that no changes should be made to the Council Tax Support Scheme for 2020/21. This would mean that the minimum contribution would remain at 12%. Additionally, Cabinet accepted the Group's recommendation that a fundamental review of the scheme should be started in 2020, specifically to consider the impact of the roll out of Universal Credit on Rushmoor residents and the Council, long term affordability, and scheme complexity.

1.5 The Cabinet report is reproduced below in its entirety for completeness (Appendix A). Relevant tables have been updated below to reflect the updated estimates for Business Rates.

1.6 The impact of the additional business rates income is shown in the Budget Report summary below (Table C1), with the yellow highlighting indicating revised figures:

2. BUDGET REPORT SUMMARY

2.1 The Council's Medium Term Financial Forecast and budget proposals were the subject of a presentation to all members on 20 January 2020. Whilst the Medium Term Financial Forecast has been updated as part of the budget preparation, the broad assumptions contained within the budget remain the same and are consistent with the agreed Financial Strategy.

2.2 It is proposed that the Council increases Council Tax by the maximum permissible level (up to a 2% or £5.00, whichever is higher) for a Band D property. This would increase Rushmoor Borough Council's Band D rate by £5.00 (just under 10p per week) from £204.42 to £209.42.

2.3 Council approved to increase the amount of Council Tax Empty Property Premium charged for long-term empty properties at their meeting on 21 February 2019 (Report No: FIN1907). Members are reminded that from 01 April 2020 a premium of 200% (300% Council Tax Liability, for properties which have been empty for 5 years or more) will be charged.

2.4 The Local Government Finance Settlement (confirmed on 06 February 2020) should be viewed as a 'roll-over' settlement from 2019/20 and that it only covers the forthcoming financial year. Significant changes are expected to local government finance from 2021/22.

2.5 The settlement largely confirmed the funding position set out in the Spending Round 2019. This included a continuation of the approach to eliminating negative RSG and an uprating of the Settlement Funding Assessment (SFA). Other announcements included a reduced council tax referendum principle of 2% or £5, an extension of the additional Rural Services Delivery Grant, and a new Social Care Grant for 2020/21.

2.6 A major change to New Homes Bonus (NHB) was confirmed whereby the 2020/21 element of the reward does not give rise to any future legacy payment. Whilst the total amount of NHB for 2020/21 is £1.169m, the 2020/21 element is only payable in 2020/21. Whilst the Government have announced a consultation later in the Spring on the future of NHB, the MTFS assumes it will taper out over the next 2 years.

2.7 The Council is legally required to set a balanced budget for the forthcoming financial year. As can be seen in the MTFS below, the Council's core financial position is a balanced budget next year, with a projected deficit of £1.4m in 2021/22. An important part of the strategy for financial sustainability will be to continue to deliver efficiencies and savings over the coming years

Table C1 – Medium Term Financial Forecast

Item	2019/20 LAB (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Portfolio Net Expenditure	10,179	8,753	8,429	8,313	8,313
Corporate Items	(1,093)	2,688	5,113	7,144	7,786
Adjusted Budget	**9,085**	**11,441**	**13,542**	**15,458**	**16,099**
Additional Items	251	909	692	692	692
Budget Proposals	0	376	26	26	26
Risk items	0	0	750	1,350	1,600
Savings Plan	(444)	(1,436)	(3,567)	(5,196)	(6,201)
Draft Net Revenue Budget	**8,893**	**11,290**	**11,444**	**12,330**	**12,216**
Funded by:					
Council Tax	6,409	6,705	6,933	7,166	7,403
Business Rates	3,836	3,767	2,561	2,610	2,662
New Homes Bonus	1,010	1,169	550	211	0
Other Funding	541	(3)	0	0	0
TOTAL Funding	**11,797**	**11,637**	**10,044**	**9,987**	**10,065**
Core Surplus / (Deficit)	**2,904**	**347**	**(1,400)**	**(2,343)**	**(2,152)**
Additional transfers					
to Commercial Property Reserve	(2,000)				
to Stability & Resilience Reserve					
to Service Improvement Fund		(297)			
to Regeneration	(450)				
to Regeneration/Commercial DD	(250)				
to Workforce Planning	(200)	(50)			
Core Surplus / (Deficit) after Transfers	**4**	**(0)**	**(1,400)**	**(2,343)**	**(2,152)**

Reconciliation of movement between Cabinet and Council	2019/20 LAB (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Core Surplus / (Deficit) (Cabinet 04/02/2020)	2,904	205	(1,400)	(2,343)	(2,152)
Core Surplus / (Deficit) (Council 20/02/2020)	2,904	347	(1,400)	(2,343)	(2,152)
Difference	**0**	**142**	**0**	**0**	**0**
Explained by:					
Business Rates		142			
Collection Fund		0			
TOTAL	**0**	**142**	**0**	**0**	**0**

2.8 The Council has a good track record of delivering budget and efficiency savings, and this must be sustained over the medium term to enable the Council to meet its balanced budget requirement in future years and to be financially resilient.

2.9 There is an inherent risk with savings targets - there is a risk that these will not be achieved in full or in the timeframe required which would put additional financial pressure on the Council. The Savings Targets have been profiled to some degree to take into account the challenges around delivery.

2.10 It is worth noting that the Savings Plan does not resolve the deficit position forecast over the MTFS period. Whilst the Council may benefit from further Government Funding (e.g. transitional arrangements from 2021/22, NHB replacement), the downward trend in Government funding will frame he Council's revenue budget in future years.

2.11 Therefore, it is recommended that the Council continues to review not only the cost of services but considers the nature and scope of services beings delivered.

2.12 The Council's financial position is supported by its balances and reserves. The Budget Strategy sets a target for the General Fund balance to be maintained at a minimum of £2m, with the Stability and Resilience Reserve balance held at a level that would allow the Council to mitigate short-term fluctuations in income and expenditure (e.g. Business Rates, changes to Government Funding).

2.13 The Council also holds reserves to deal with specific risk, with the Commercial Reserve established to provide a source of funding to mitigate potential fluctuations in commercial property income.

2.14 It is proposed that additional reserves are created due to an increased level of risk and uncertainty facing the Council over the medium term

- Pensions
- Regeneration
- Regeneration (Professional Advice and Due Diligence)
- Workforce Strategy

2.15 The proposed Capital Programme for 2020/21 is £52.226m and continues to focus on the Council's key priorities including Town Centre Regeneration, Income generation schemes, and enhancing the delivery of core services through improvement and enhancement of assets.

2.16 The Council is committed to bringing forward the schemes as broadly set out below. Indicative estimates are shown to enable members to understand the scale of each scheme. It is important to note that the figures below give a broad indication of the relative scale of each scheme. Scheme may be delivered in phases, with options put forward around certain key sites within the schemes. The figures do not necessarily represent the Council's financial commitment, as there will be a number of financing options to consider that reduce and mitigate financial risks on the schemes.

- Union Street East: £40m to £50m
- Leisure Centre: £25m to £40m
- Civic Quarter: £100m to £150m.

2.17 Implementation of the core programme in 2020/21 will require the use of Council resources, largely through borrowing (£44.210m), together with £8.017m use of grants and contributions including Better Care Fund and an element of developers' s106 contributions.

3. CORPORATE GOVERNANCE

3.1 The Executive Head of Finance, as the Council's Section 151 Officer, has made a statement in compliance with Section 25 of the Local Government Act 2003 on the robustness of the estimates and the adequacy of the Council's reserves. This is included with the Cabinet Report in Appendix A.

4. CONCLUSIONS

4.1 In spite of the uncertainties around Government Funding from 2020/21 and other risks associated with Brexit and the general economic position, the Council has been able to prepare a sound budget whilst maintaining services to residents. The budget will also provide a platform for Rushmoor to address future challenges.

4.2 The budget allows for the implementation of essential additional revenue items and, importantly, provides certainty of funding to support key Council priorities:

- £250k of funding set aside in a new Climate Change reserve to enable the Council to deliver against the plan it develops in response to the motion passed on 20 June 2019 acknowledging a Climate Emergency
- £100k of funding set aside in a new Deprivation Strategy reserve to support actions arising from the agreed Deprivation Strategy
- Increase Ward Budgets from £1,000 per ward to £3,000 per ward

4.3 The budget proposals provide for the current Council Tax level to increase by £5.00 for a Band D property (from £204.42 per annum to £209.42) - an increase of less than 10p per week).

4.4 In order to achieve this, the budget proposals will require the implementation of budget savings of £1.436m in 2020/21, together with further savings over the medium term, totalling approximately £16.4m over the period to 2023/24. This will require reductions in the Council's service expenditure, and increased income generation, in accordance with the Medium-Term Financial Forecast and the Financial Strategy.

4.5 Reserves continue to be held to support the implementation of key projects and to mitigate against the substantial increased risk the Council is facing, which will be monitored and reported to Cabinet throughout 2020/21.

5. RECOMMENDATIONS

5.1 The Council is recommended to approve the following, as detailed in report FIN2007 and in the attached budget booklet, subject to the amendments detailed in paragraph 1.2 of this report.

i) the General Fund Revenue Budget Summary set out in Appendix 1

ii) the detailed General Fund Revenue Budget set out in Appendix 2

iii) the additional items for inclusion in the budget, set out in Appendix 3

iv) the Council Tax Requirement of £6,704,629 for this Council

v) the Council Tax level for Rushmoor Borough Council's purposes of £209.42 for a Band D property in 2020/21 (an increase of £5)

vi) the Capital Programme, set out in Appendix 4

vii) the Strategy for the Flexible use of Capital Receipts set out in Appendix 5

viii) the Executive Head of Finance's report under Section 25 of the Local Government Act 2003 as set out in section 10

ix) the additional transfers to earmarked reserves in 2020/21 and the holding of reserves as set out in the report

x) the insurance arrangements, made through the Hampshire Insurance Forum and Aon and effective from April, 2020, resulting in an annual saving on premiums of £81,000, as set out Table 5 of the Report; and

5.2 The Council is recommended to approve the following, as detailed in report FIN1934

i) that the existing scheme is continued for 2020/21

Cr. D E Clifford
Leader of the Council

APPENDIX A

1. CABINET REPORT INTRODUCTION

1.1 This report sets out the key factors taken into account in preparing the budget plans for Rushmoor Borough Council for 2020/21, with detailed budget proposals for both Revenue and Capital spending contained in Appendices 2 to 4.

2. BACKGROUND

2.1 Cabinet approved the budget framework set out in the Medium-Term Financial Strategy 2020/21 on 15 October 2019 (Report no: FIN1928). This included a number of assumptions around:

- An assumed level of Government Funding based on the outcome of the Spending Round 2019
- Forecasts of Council Tax, Business Rates and New Homes Bonus
- Inflationary cost pressures

2.2 The budget proposals for 2020/21 have been put together within the framework set out in the Medium-Term Financial Strategy, which outlined the context and strategic direction of the Council's finances. The forecast has been updated, taking onto account the current financial position and the uncertainty around the medium term. It is important the Council considers Capital expenditure plans due to the longer-term impact of borrowing costs in future years.

2.3 The MTFS continues to provide a risk-based General Fund balance of £2m being the minimum expected level for total working balances.

3. STRATEGIC CONTEXT

3.1 As set out in the Medium-Term Financial Strategy 2020/21 to 2023/24 report to Cabinet in October 2019, Rushmoor Borough Council continues to face significant financial challenges over the medium-term. This report provides members with a detailed overview of the financial prospects for 2020/21 based on the local government finance settlement announced in December 2019. The medium-term financial forecast by the authority is less clear, with considerable uncertainty around the scale and impact of the changes to local government funding du to be introduced from April 2021.

3.2 With this in mind, the Council is in a good position for the coming financial year and can set a balanced budget with support for key priorities. However, the financial prospects for 2021/22 and beyond are less positive with a core deficit on the MTFS forecast. The Council will need to take this into account and will need to continue to take difficult decisions around resource allocation and prioritisation over the next 12 months.

Provisional Local Government Finance Settlement 2020/21

3.3 The provisional settlement for 2020/21 was announced on 20 December 2019 and should be viewed as a 'roll-over' settlement from 2019/20. It is worth stressing that the provisional settlement only covers the forthcoming financial year. Significant changes are expected to local government finance from 2021/22.

3.4 The government's consultation on the settlement closed on 17 January 2020. At the time of writing this report, the government had not confirmed when the final settlement will be announced. As such, this report has been prepared based on figures contained within the provisional local government finance settlement, which are therefore subject to change when the final settlement figures are released.

3.5 The provisional settlement largely confirmed the funding position set out in the Spending Round 2019. This included a continuation of the approach to eliminating negative RSG and an uprating of the Settlement Funding Assessment (SFA). Other announcements included a confirmation of the council tax referendum principle of 2% or £5 (whichever is higher) for shire districts, no change position on the New Homes Bonus national baseline for 2020/21, an extension of the additional Rural Services Delivery Grant, and a new Social Care Grant for 2020/21.

Business Rates

3.6 The Council is required to finalise its Business Rates estimates for 2020/21 and its initial estimate of any surplus or deficit for 2019/20 by 31 January 2020.

3.7 Forecasting business rates income is complex. Predicting the delivery of new business premises year by year is not straightforward. Likewise, the number and value of appeals under the new 'check, challenge, appeal' process operated by the Valuation Office Agency is difficult, although initial numbers from the VOA against the April 2017 rating list are relatively low. There remains a significant number of outstanding appeals against the 2010 rating list that provision is made for.

3.8 The draft forecast for business rates included in this report is lower than last year. Other things being equal, it would be expected that business rates income would rise in line with the increase in the business rates multiplier (around 1.7%). However, the forecast includes an estimated decline in business rates during the year, in part due to significant redevelopment in Aldershot Town Centre and the demolition and subsequent development around Southwood Crescent in Farnborough.

3.9 The Business Rates Collection Fund is forecast to be in a deficit position by the end of the current year. Whilst this is not ideal, it is consistent with the outturn position on the collection fund for 2018/19. Owing to the way in which business rates are accounted for through the budget setting process and the year-end collection fund, any surplus or deficit from the previous year is dealt with in the following year's budget. Therefore, the forecast deficit of £371k represents the timing difference between the 2018/19 outturn forecast from January 2019 and the final outturn declared in April 2019, along with the estimated forecast for 2019/20.

3.10 Final agreement of the Business Rates estimates will be made by the Council's Section 151 Officer in consultation with the Leader of the Council, under the delegation agreed by Council on 20th January 2014, and an update will be provided to Cabinet alongside this report.

3.11 Should the final settlement figures or the business rates estimates be materially different from those presented in this report, the General Fund Summary will be updated by the Council's Section 151 Officer in consultation with the Leader of the

Council and the Portfolio holder for Corporate Services, prior to consideration of the budget by Council on 20 February 2020.

New Homes Bonus (NHB)

3.12 The allocation of New Homes Bonus (NHB) for 2020/21 was confirmed in the provisional settlement. The Government had indicated in the technical consultation in the autumn that changes to the NHB scheme were likely and had consulted on whether to continue to prioritise the scheme over other potential uses for the funding.

3.13 The major change to the NHB allocation is that the 2020/21 element of the reward does not give rise to any future legacy payments. In previous years, each year's allocation was paid for a number of additional years (initially 6 years but subsequently reduced to 4 years).

3.14 Whilst the total amount of NHB for 2020/21 is £1.169m, the 2020/21 element of £456k will only be payable in 2020/21. Therefore, future payments of NHB will reduce significantly as the legacy payments taper-out over the next 3 years. This is best illustrated in the table below.

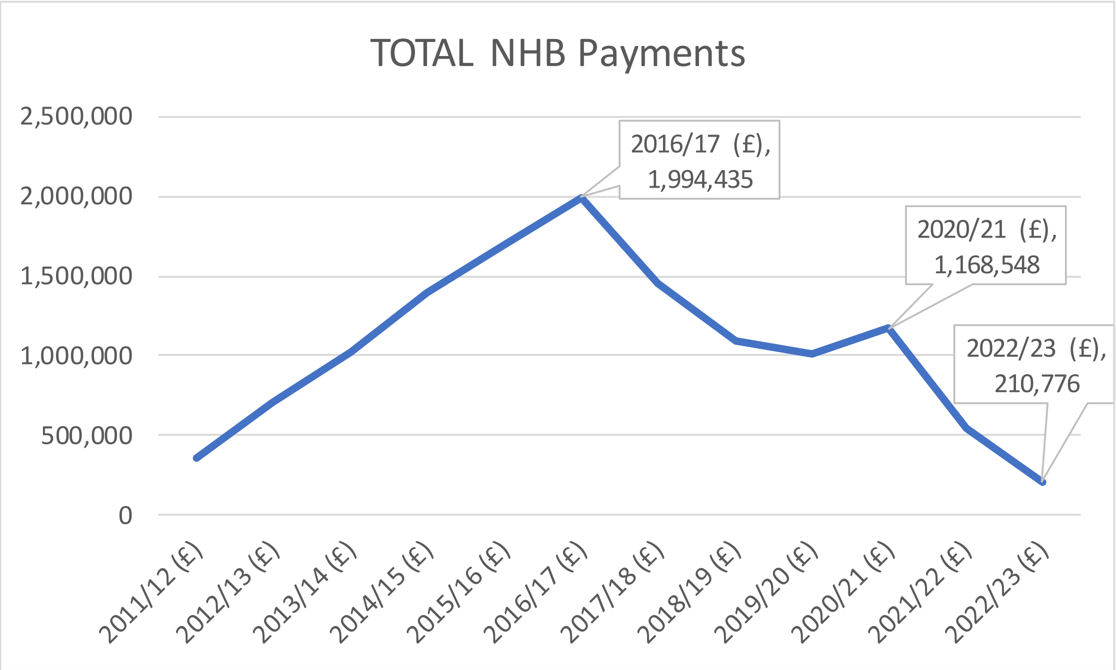
3.15 The Government has not provided any details on what will happen to the scheme in future years. Whilst there have been references in previous local government finance consultations that NHB should be more "targeted", the government has yet to provide any detail. A consultation on NHB is due in Spring 2020 and it is unlikely that any replacement scheme will distribute as much funding as the current scheme.

Table 1a – 2020/21 New Homes Bonus calculation

New Homes Bonus Calculation	**TOTAL**
New Properties (October 2018 to October 2019)	407
Empty Homes brought into use	53
Converted into Band D equivalent	426
As % of previous year's Band D equivalent stock	0
National Baseline	0
Less: Units not rewarded (up to baseline)	(150)
Units rewarded above baseline	276
Gross Afordable Units	251

	HCC	**RBC**	**TOTAL**
Payment for net additions	£96,516	£386,063	£482,579
Afordable Units Premium (£350)	£17,570	£70,280	£87,850
TOTAL NHB	**£114,086**	**£456,343**	**£570,429**

Chart 1b – Total New Homes Bonus allocations



Other Government Funding

3.16 Alongside the finance settlement, the government has confirmed the amount of Homelessness Grant that the Council will receive in 2020/21, with further funding announced in support of Housing Benefit.

- £387k Homelessness Funding (£287k Flexible Homelessness Support Grant, £100k Reducing Homelessness Grant)
- £318k DWP Funding in support of Housing Benefit (£277k Housing Benefit Administration Subsidy Grant, £41k New Burdens funding)

3.17 The table below provides an overview of the overall position in respect of Government funding. Section 4 of this report provides further information on the current consultation around government funding and hence, the inherent risk in forecasting for 2020/21 and 2021/22.

Table 2 – Government Funding forecasts

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	3,625	2,561	2,610	2,662
Revenue Support Grant	0	0	0	0	0
Subtotal	**3,836**	**3,625**	**2,561**	**2,610**	**2,662**
New Homes Bonus	1,010	1,169	550	211	0
Other Grants	145	267	0	0	0
TOTAL Government Funding	**4,991**	**5,060**	**3,111**	**2,821**	**2,662**

Note: Business Rates Retention figure includes Baseline funding, Section 31 Grants and calculation of the levy payable on growth above the baseline. The forecast for 2021/22 reduces due to the baseline reset, which for the purposes of budgeting is estimated to reduce by 30% to 40%. Paragraph 4.11 sets out the assumptions made in the forecast for business rates income and New Homes Bonus.

4. LOCAL GOVERNMENT FINANCE – 2021/22 and beyond

4.1 Members will be aware that the Government announced that significant changes to local government funding had been postponed until April 2021.

4.2 The changes were due to come into effect from April 2020, but in part due to a lack of parliamentary time and concern around the transformational impact these changes would have, the changes have been pushed back a year to April 2021.

4.3 A consultation paper *“A review of local authorities’ relative needs and resources”* was published in late 2018 and set out the Government’s latest proposals on the Fair Funding review (FFR). This deals with the complex calculation of the funding formulae that are used to allocate resources across the different local government sectors (referred to as ‘funding blocks’).

4.4 The relative needs of each authority are supported by a number of different datasets, indicators and other formulae that drive the needs analysis, which in turn provides the assessment of funding. Updated datasets and statistical analysis of deprivation, population estimates and population density, for example, will see changes in this assessment of funding. The intention is to focus on cost drivers – indicators that measure the (relative) cost of providing services rather than indicators that measure ‘need’.

4.5 In terms of resources, the overall funding formula will also take account of the resources available locally to individual authorities. This principally relates to the ‘council tax base’ – each authority’s capacity to raise revenue locally. The formula will express the resource element as a negative number. In basic terms, this will mean that authorities with higher local resources will lose more funding, and authorities with fewer local resources will lose less.

4.6 There is likely to be some form of transitional arrangement (damping) to provide some time-limited mitigation for those authorities who gain or lose the most under the new funding arrangements.

4.7 The second consultation paper covered Business Rates Retention Reform and the move to a 75% Business Rates Retention scheme, with change to the business rates system being fiscally neutral.

4.8 There were a number of issues raised in the consultation around the balance or risk and reward in the system, the timing, frequency and extent of baseline resets, and how to better manage the volatility in the system (e.g. Appeals).

4.9 Further detailed work has been undertaken during 2019/20 which looked into the design of the 75% system, but also considered whether a more simplified scheme would better serve local government. The simplified scheme would remove large elements of risk from business rates and would provide a more stable and predictable funding source. However, the trade-off is around how growth in each local authority area is treated. Under a simplified system, the local authority would not have the same growth incentive that exists under the current 50% system.

4.10 Whilst these consultations are distinct and separate, they will both have a transformative effect on the distribution of local government funding between tiers and geographic areas. The outcome of these changes will have a significant impact on the MTFS and budget setting process for 2021/22 and beyond.

4.11 In summary, the approach taken in forecasting the level of Government funding over the medium term recognises the redistribution of resources from lower-tier authorities to upper-tier authorities to help fund social care. The Fair Funding Review and introduction of 75% Business Rates Retention will move funding between tiers. The forecast assumes:

- New Homes Bonus does not continue, with only legacy payments being made.
- Although the Government have signalled their intent to replace NHB with a new reward system, the MTFS does not anticipate any future funding from the new scheme.
- Business Rates Retention – system will be 'reset' from April 2021 as the outcome from FFR and 75% BRR are introduced. For the purposes of the MTFS, a reduction in retained business rates income of 35% is expected.
- The MTFS does not take into account or attempt to estimate the value of any transitional funding arrangements that may arise from April 2021. The scale of the reduction in funding for Rushmoor and other authorities may require the government to provide some protection through a system of floors and ceilings, as has been provided under previous structural changes to local government funding. However, there is no way of estimating what these arrangements may be – how long they would be in place and at what level the floors and ceiling would operate at.
- The MTFS also assumes that Business Rates remains in place. There is pressure from business for an alternative to Business Rates given its perceived unfairness to certain sectors.

5. MEDIUM-TERM FINANCIAL FORECAST 2019/20 – 2021/22

5.1 The Medium-Term forecast has been updated to ensure that budget decisions for 2020/21 are taken in light of relevant information and considers the future financial climate the Council will face. The focus is on estimating the future revenue budget position of the Council taking into account a number of factors and issues detailed below. A more detailed MTFS is shown after paragraph 12.6 of this report.

Table 3 – Medium Term Financial Forecast

Item	2019/20 LAB (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Portfolio Net Expenditure	10,179	8,753	8,429	8,313	8,313
Corporate Items	(1,093)	2,688	5,113	7,144	7,786
Adjusted Budget	**9,085**	**11,441**	**13,542**	**15,458**	**16,099**
Additional Items	251	909	692	692	692
Budget Proposals	0	376	26	26	26
Risk items	0	0	750	1,350	1,600
Savings Plan	(444)	(1,436)	(3,567)	(5,196)	(6,201)
Draft Net Revenue Budget	**8,893**	**11,290**	**11,444**	**12,330**	**12,216**
Funded by:					
Council Tax	6,409	6,705	6,933	7,166	7,403
Business Rates	3,836	3,625	2,561	2,610	2,662
New Homes Bonus	1,010	1,169	550	211	0
Other Funding	541	(4)	0	0	0
TOTAL Funding	**11,797**	**11,495**	**10,044**	**9,987**	**10,065**
Core Surplus / (Deficit)	**2,904**	**205**	**(1,400)**	**(2,343)**	**(2,152)**
Additional transfers					
to Commercial Property Reserve	(2,000)				
to Stability & Resilience Reserve					
to Service Improvement Fund		(205)			
to Regeneration	(450)				
to Regeneration/Commercial DD	(250)				
to Workforce Planning	(200)				
Core Surplus / (Deficit) after Transfers	**4**	**0**	**(1,400)**	**(2,343)**	**(2,152)**

Note – Table may contain rounding when compared to Appendix 1

5.2 Portfolio budgets have been revised for 2019/20 and 2020/21, along with forecasts of Corporate Items. Inflationary provision has been included as a separate item and assumes:

- Pay inflation of 2% and an assumption of the impact of pay increments
- Price inflation on major contracts
- Changes to the Council's contribution to the Local Government Pension Scheme

5.3 Corporate Items covers the non-service revenue expenditure and income that is included in the Council's General Fund.

5.4 The MTFS includes an estimate of the additional cost of borrowing as interest rates increase. As set out in the Treasury Management Strategy, external short-term borrowing has been taken to finance commercial property and regeneration site acquisition. This takes advantage of current low interest rates, with a planned move to longer-term external borrowing as interest rate rises are expected over the medium term. Advice will be sought from the Council's Treasury Management advisors Arlingclose, in terms of timing, maturity profile and debt composition.

5.5 It is worth noting that the 1% increase in PWLB borrowing rates from October 2019 has increased the cost of borrowing over a longer-term period. The tables below show the increase in rates for different borrowing periods for maturity loans and the increase in borrowing costs.

Table 4 – PWLB rates (impact of increase)

Period (years)	Certainty Rate on 08 October 2019 (%)	Certainty Rate 21 January 2020 (%)	Change (%)
5 year PWLB Maturity loan	1.00	2.23	+1.23
10 year PWLB Maturity loan	1.19	2.46	+1.27
20 year PWLB Maturity loan	1.72	2.96	+1.24
30 year PWLB Maturity loan	1.76	3.00	+1.24
40 year PWLB Maturity loan	1.65	2.90	+1.25
50 year PWLB Maturity loan	1.61	2.87	+1.26

Interest on £5m (total interest paid over duration of loan term)

Period (years)	Certainty Rate on 08 October 2019 (£'000)	Certainty Rate 21 January 2020 (£'000)	Change (£'000)
5 year PWLB Maturity loan	300	608	308
10 year PWLB Maturity loan	695	1,330	635
20 year PWLB Maturity loan	1,920	3,160	1,240
30 year PWLB Maturity loan	2,940	4,800	1,860
40 year PWLB Maturity loan	3,700	6,200	2,500
50 year PWLB Maturity loan	4,525	7,675	3,150

5.6 As set out in the Annual Treasury Management Strategy, the Council's borrowing strategy is *"to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required".*

5.7 The MTFS includes estimates of the borrowing costs arising from the financing of the capital programme. Further provision is made within the MTFS to ensure the Council can mitigate the refinancing risk of its current loan portfolio.

5.8 Estimates of interest receivable on other investments remain robust. The Council continues to hold up to £25m in Pooled Funds, which are performing well. Investment income of £1.6m has been forecast across the MTFS from Treasury Management activities. This will be kept under review in terms of the overall cash position of the authority and the impact of forecast interest rate rises.

5.9 The MTFS includes planned transfers to and from earmarked reserves to support spending commitments included in the revenue budget, to provide adequate mitigation against risks, or to ensure funding is set aside in a ring-fenced reserve (e.g. SANG and s106 contributions). Section 6 of this report covers Balances and Reserves in more detail.

5.10 As outlined in paragraphs 3.12 to 3.15 in the report, future NHB allocations will be at a reduced level as the legacy payments taper out. For the purposes of the MTFS forecast, it has been assumed that no further NHB will be received other than the legacy payments. The Council has been reliant upon NHB payments to fund services as Revenue Support Grant reduced.

5.11 Table 2 indicated a reduction in the level of retained business rates for Rushmoor from 2021/22. The move to a 75% Business Rates Retention scheme will involve a 'system reset' that is likely to remove a significant part of the business rates growth accumulated since April 2013. The MTFS assumes a 30% to 40% reduction as the funding baseline is reset.

5.12 Further changes to the Business Rates system are likely, with the Government indicating that the level of support for the Retail sector will be provided through an increase in the level of relief being provided.

5.13 Other changes that may impact on the level of business rates income in the future concern the introduction of a new rating list from April 2021 and reducing the length of time between rating lists with a more frequent revaluation period of 3 years proposed instead of the current 5-year period.

6. BALANCED BUDGET REQUIREMENT

6.1 The Council is legally required to set a balanced budget for the following financial year. As can be seen in the MTFS, the Council's core financial position is a balanced budget next year (after transfers to reserves), with a projected deficit of £1.4m from 2021/22, increasing to around £2.3m in 2022/23. An important part of the strategy for financial sustainability will be to continue to deliver efficiencies and savings over the coming years.

<u>Savings Plan</u>

6.2 The table below provide members with an update on the Savings Plan. A number of savings targets are included in the Savings Plan which take into account the focus on a number of key projects

- ICE
- Commercial Property Investment
- Pipeline savings

6.3 The Council has a good track record of delivering budget and efficiency savings, and this must be sustained over the medium term to enable the Council to meet its balanced budget requirement in future years and to be financially resilient.

6.4 There is an inherent risk with savings targets – there is a risk that these will not be achieved in full or in the timeframe required which would put additional financial pressure on the Council. The Savings Targets have been profiled to some degree to take into account the challenges around delivery.

6.5 The Savings Plan will be subject to regular review during the coming financial year to ensure they remain on target and to enable the Council to respond to any potential shortfall against the savings targets.

6.6 As stated in the budget report last year, the Council is increasingly reliant on income from Commercial Property to balance the budget. The Savings Plan includes additional income from further acquisitions and has been forecast in line with expectations set out in the Commercial Property Investment Strategy.

6.7 In addition to the focus on Commercial Property income, the Savings Plan can be seen as more reliant on income generation and organisational redesign. The Council will need to ensure the Savings Plan remains balanced, with an appropriate mix of cost control, income generation, and service review to mitigate against the risk of becoming over reliant on a narrow savings programme.

6.8 It is worth noting that the Savings Plan does not resolve the deficit position forecast over the MTFS period. Whilst the Council may benefit from further Government Funding (e.g. transitional arrangements from 2021/22, NHB replacement), the downward trend in Government funding will frame he Council's revenue budget in future years.

6.9 Therefore, it is recommended that the Council continues to review not only the cost of services but considers the nature and scope of services beings delivered.

Table 5 – Savings Plan (February 2020)

Estimated Savings	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
2019/20 Savings	(81)	(81)	(81)	(81)
Reversal of 2019/20 Additional Items	(130)	(160)	(160)	(160)
ICE Programme (Workstreams 1-3)	(150)	(425)	(750)	(810)
ICE Programme (Workstream 4)	(50)	(225)	(500)	(750)
Commercial Property - Rental income expectations *	(887)	(1,698)	(2,377)	(2,922)
Pipeline Savings - Enhanced Commercial Property		(300)	(300)	(300)
Pipeline Savings - Major contracts		(300)	(450)	(600)
Pipeline Savings - Service Loans to Housing Company *	(88)	(328)	(528)	(528)
Salaries monitoring	(50)	(50)	(50)	(50)
TOTAL Savings Plan	**(1,436)**	**(3,567)**	**(5,196)**	**(6,201)**

Notes:

* The savings figures included in the table represent the Gross saving. The new commercial property acquisitions and the service loans to the Housing Company will result in a cost to the Council. This has been provided within the Corporate Items section of the MTFS.

Balances and Reserves

6.10 Members will recall that as part of the 2019/20 budget setting process a Commercial Reserve was established to provide a source of funding to mitigate potential fluctuations commercial property income. The Council has acquired further commercial property during 2019/20 and plans to undertake a further £60m of acquisitions over the Capital Programme period. The level of the reserve will need to increase in-line with the financial risks associated with the commercial property portfolio. It is proposed that an annual contribution to the Commercial Property reserve of 0.5% of yield (around £550k based on gross rental income of £6m) is included in the MTFS, net of expected annual expenditure.

6.11 The Council's financial position is supported by its balances and reserves as set out below:

6.12 The Budget Strategy sets a target for the General Fund balance to be maintained at a minimum of £2m, with the Stability and Resilience Reserve balance held at a level that would allow the Council to mitigate short-term fluctuations in income and expenditure (e.g. Business Rates, Government funding changes). However, they should not be utilised to fund normal, on-going service provision. It is important to review the level of reserves regularly.

6.13 The Service Improvement Fund has been drawn upon to provide funding for the ICE programme and to support key projects that underpin the Council's plan for financial sustainability. It is not proposed to amend level of the Fund but will be reviewed at the end of the current financial year.

6.14 As highlighted earlier in the report, there is an increased level of risk and uncertainty facing the Council over the medium term. Therefore, it is proposed that the following additional reserves are created:

- Pensions
- Regeneration
- Regeneration (Professional Advice and Due Diligence)
- Workforce Strategy

6.15 The Medium-Term Financial Strategy 2020/21 to 2023/24 report to Cabinet in October 2019 provided members with an update on the Local Government Pension Scheme (LGPS).

6.16 During the Autumn of 2019, the draft funding results from the Local Government Pension Fund actuarial review were provided by Hampshire County Council Pension Team. This indicated that the overall funding position of the Hampshire scheme had improved significantly since 2016. As a result of the improved position and due to structural changes to the way employers are grouped together for funding purposes, the total employer contribution required from Rushmoor is less than over the previous 3-year period. Total contributions from 2020/21 to 2022/23 are estimated at £6.7m and is £2.4m less than the provision made in the October 2019 MTFS.

6.17 However, given the short-term nature of the funding window (3 years) but the long-term nature of the pension fund liability, it is recommended that the reduction in budgeted provision is not released to the General Fund but is transferred to a new Pensions Reserve. The next actuarial review will take place during 2022/23 with revised results due in Autumn of 2023. It would then be appropriate to review the level of funding held to cover the cost of employer pension contributions. For the purposes of the MTFS, it is assumed the pension fund contribution continues to increase in 2023/24 at a similar rate.

6.18 Negotiations between Marks and Spencer and the Council concerning the lease surrender of 38-46 Union Street, Aldershot concluded in early January 2020. A revenue payment of £900k was received by the Council and it is proposed that the receipt is allocated to earmarked reserves as set out below:

6.19 £450k to provide a revenue and capital funding for the wider Regeneration Programme. The reserve would enable further work to be completed on site assembly and facilitate delivery of the Council Business Plan around the regeneration of Aldershot and Farnborough town centres.

6.20 £250k to provide revenue funding associated with the due diligence on regeneration schemes as they come forward. As section 8 of the report sets out, a number of capital schemes will come forward for Cabinet and Council to consider. It is critical that the Council has the right resources and expertise in place so that a comprehensive process of due diligence is undertaken on each potential scheme. This would include legal, property and financial advice including evaluating assumptions made, market analysis and legal structures required to facilitate delivery.

6.21 Members will recall that the Peer Review highlighted a need for the Council to develop a Workforce Strategy, which is being currently developed. The ICE Transformation Programme approved by Cabinet in October 2019 forms an integral part of the Council's Savings Plan. It is proposed that £200k of revenue funding is set aside in the new Workforce Strategy reserve to provide funding to support the organisation redesign projects and ensure that staffing service changes can be funded without disturbing the savings plan.

6.22 If approved, the impact of these proposed changes to the level of balances and reserves is set out in the table below:

Table 6 – Balances and Reserves forecast

Balances and Reserves	2019/20 Opening Balance (£'000)	2019/20 Forecast (£'000)	2020/21 Forecast (£'000)	2021/22 Forecast (£'000)	2022/23 Forecast (£'000)	2023/24 Forecast (£'000)
General Fund Balance	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Stability & Resilience Reserve	(4,869)	(4,869)	(4,869)	(4,869)	(4,869)	(4,869)
Service Improvement Fund	(1,000)	(40)	(245)	(245)	(245)	(245)
ICE Reserve`		(618)	(212)	0	0	0
Commercial Reserve	(475)	(2,000)	(2,050)	(2,100)	(2,150)	(2,200)
Climate Emergency *	0	0	(250)	0	0	0
Deprivation Strategy Support *	0	0	(100)	0	0	0
Regeneration Reserve	0	(450)	(280)	(280)	(280)	(280)
Regeneration/Commercial Due Dilligence	0	(250)	(250)	(250)	(250)	(250)
Workforce Strategy	0	(200)	(200)	(200)	(200)	(200)
Pension Fund Equilisation (Para 6.16-6.17)	0	0	(669)	(1,487)	(2,447)	(3,549)
All Other Earmarked Reserves **	(5,721)	(6,099)	(5,657)	(5,621)	(5,800)	(5,800)
Estimated Balances at 31 March	**(14,064)**	**(16,525)**	**(16,781)**	**(17,051)**	**(18,240)**	**(19,392)**

Notes:

* It is assumed that expenditure proposals are agreed during 2020/21 with the earmarked reserves fully utilised

** This includes all other earmarked reserves including s106 and SANG balances. It is likely that the level of these reserves will increase over the next 3-4 years as the charge payable for the Southwood SANG is collected.

6.23 Whilst the level of balances and reserves shown in the table indicates that the Council is in a good financial position, the cumulative core deficit of £5.895m over the MTFS period (as shown in Table 3 and referenced in paragraph 6.1), would reduce the Stability and Resilience Reserve considerably. It is estimated that the Stability and Resilience Reserve would be depleted during 2023/24 if further savings or additional income is not secured.

7. GENERAL FUND REVENUE BUDGET 2020/21

7.1 The proposed General Fund Revenue budget for 2020/21 takes into account the issues highlighted earlier in the report.

7.2 The General Fund Revenue Budget Summary is set out in Appendix 1; the detailed revenue budgets in portfolio order are shown at Appendix 2.

7.3 The proposed General Fund Revenue Budget will enable the Council, in broad terms, to maintain current service delivery while identifying reductions in the level of net expenditure of £1.4m to be delivered during 2020/21. This reduction is largely due to anticipated levels of income from the Council's commercial property acquisitions.

7.4 The General Fund Summary shows that the risk-based revenue balance will be maintained at £2.0m by the end of 2020/21.

<u>Council Tax</u>

7.5 The referendum threshold for 2020/21 for Shire Districts such as Rushmoor is 2% or £5 (whichever is the greater). This is a reduced threshold level when compared to previous year when it was set at 3% or £5.

7.6 The Spending Power calculation published with the Local Government Finance Settlement assumed that all authorities will raise their Council Tax towards the maximum allowable amounts. Factoring such increases into the funding assessment, removes flexibility for local authorities to take local decisions about tax levels and to use increases in local taxation to offset local spending pressures. Councils now need to make these increases just to keep total funding levels at a standstill.

7.7 The revenue budget assumes a £5 increase in a Band D charge for Council Tax, which falls within the permissible level of increase before triggering a local referendum and equates to an increase of around 10 pence per week for a Band D property.

7.8 A council tax rise of £5 increases the Band D rate from £204.42 to £209.42 and will generate approximately £296k in additional council tax revenue annually (when taken with estimated changes to the taxbase). Whilst it is unclear whether the ability to increase Council Tax by up to 2% or £5 will continue beyond 2020/21, the MTFS assumes an increase of £5 per annum. This would generate an additional £994k over the MTFS.

7.9 Cabinet considered the report from the Council Tax Support Task and Finish Group at their meeting on 16 December 2019 (Report No: FIN1934). The Group recommended that no changes should be made to the Council Tax Support Scheme for 2020/21. This would mean that the minimum contribution would remain at 12%. Additionally, it was recommended that a fundamental review of the Scheme should be started in 2020, specifically to consider the impact of the roll out of Universal Credit on Rushmoor residents and the Council, to look at improvements to reduce the administrative burdens on the Council and to make the Scheme easier to understand for the customer. Cabinet accepted the proposal from the Group, the impact of which is included within the estimates on the Council Taxbase for 2020/21.

7.10 The taxbase for 2020/21 has been estimated at 32,015.23 and represents an increase of 663.02 (2.11%) over the 2019/20 position.

7.11 The Council Tax Collection Fund is estimated to be in surplus by the end of the current financial year by £841k. This is shared across the major precepting authorities (Hampshire County Council, Hampshire Police and Crime Commissioner, Hampshire Fire and Rescue Authority). Rushmoor's share is £101k

7.12 The Council Tax base and surplus were agreed under delegated powers by the Council's Section 151 Officer, in consultation with the Leader of the Council, during January 2020.

7.13 The decision to set Council Tax remains an annual decision for Council to consider when setting the budget one year from the next.

7.14 Even factoring in these increases, the Medium-Term forecast shows a potential deficit in 2021/22 of around £1.4m, putting significant pressure on the Council to deliver the right combination of cost reductions and increased income to bridge the gap.

<u>Business Rates Retention</u>

7.15 As highlighted in paragraphs 3.6 to 3.11 of the report, Final estimates for Business Rates will be completed by 31 January 2020 and updated to Members prior to budget setting. The extent of volatility in the business rates system continues to support the need for sufficient reserves to meet any unforeseen shocks to the system

<u>New Homes Bonus</u>

7.16 The proposed budget for 2020/21 contains the provisional allocations issued alongside the Settlement of £1.169m.

<u>Other Funding</u>

7.17 The revenue budget also includes grant funding of £387k in support of homelessness and £318k in relation to the administration of Housing Benefit. This funding is fully committed against the revenue budget.

<u>Additional items</u>

7.18 In view of the on-going financial constraints in which the Council is operating, additional items for inclusion in the budget were scrutinised carefully by both the Corporate Leadership Team (CLT) and Cabinet as part of the budget setting process. These requests for both one-off items of expenditure in 2020/21 and on-going expenditure are detailed in Appendix 3, with a summary below of the key prioirity areas.

7.19 The inclusion of these additional items will help the Council deliver the Savings Plan and the priorities around Town Centre Regeneration in particular. Direct funding from SANG/s106 contributions has been identified and applied to the revenue budget.

7.20 Other items of supplementary expenditure may be agreed during 2020/21 as the Council reacts to changing conditions or levels of demand, for example. Each item will be reviewed individually as part of the normal in-year process through CLT and Cabinet, in line with current financial regulations

<u>Budget Proposals/Growth Items</u>

7.21 The proposed budget includes budget proposals and growth items that provide certainty of funding to support key Council priorities.

- Climate Emergency
- Deprivation Strategy
- Ward Budgets

7.22 At its meeting on 20 June 2019, the Council passed a motion acknowledging a Climate Emergency and agreed to develop a plan to enable a green and sustainable Rushmoor, and a carbon-neutral Council by 2030.

7.23 It is proposed that £250k of funding is set aside in a new Climate Change reserve to enable the Council to deliver against the plan as it develops during the coming year.

7.24 The Policy and Project Advisory Board have been considering the data published in the 2019 Index of Multiple Deprivation and policy implications of the updated indicators for the Council. A Deprivation Strategy will be completed in 2020/21 and considered by the Cabinet. It is proposed that £100k of funding is set aside in a new Deprivation Strategy reserve to support actions arising from the agreed strategy.

7.25 The final proposal is to increase Ward Budgets from £1,000 per ward to £3,000 per ward taking the total amount across the Borough from £13,000 to £39,000 – an increase of £26,000.

8. CAPITAL PROGRAMME 2019/20 to 2023/24

8.1 The Council's capital programme is set out in Appendix 4 of this report, with a total capital expenditure budget of £52.226m in 2020/21

8.2 The capital programme continues to focus on delivering against the Council's key priorities, including Town Centre Regeneration, Income generation schemes, enhancing the delivery of core services through improvement and enhancement of assets. The programme also includes support for the provision of local housing and the Council's statutory duties in respect of Disabled Facilities Grants.

8.3 The Council has embarked upon an ambitious programme of regeneration and investment in commercial property. Further investment in commercial property of £67m is anticipated over the next 5 years, with investment income forming a core element of the Council's Savings Plan.

8.4 The Capital Programme, as set out in this report, does not includes updated estimates for the Town Centre Regeneration schemes, although some provision is already included in the Capital Programme. Detailed proposals for each regeneration scheme will need to be considered by Cabinet and Council and it is likely each scheme will have significant legal and financial implications. The Capital Programme and Treasury Management Strategy will need to be updated to reflect decisions taken by Cabinet and Council.

8.5 The Council is committed to bringing forward the schemes as broadly set out below. Indicative estimates are shown to enable members to understand the scale of each scheme. It is important to note that the figures below give a broad indication of the relative scale of each scheme. Scheme may be delivered in phases, with options put forward around certain key sites within the schemes. The figures do not necessarily represent the Council's financial commitment, as there will be a number of financing options to consider that reduce and mitigate financial risks on the schemes.

- Union Street East: £40m to £50m
- Leisure Centre: £25m to £40m
- Civic Quarter: £100m to £150m

Table 7 – Summary Capital Programme

Capital Expenditure by Portfolio	2019/20 Original Estimate (£'000)	2019/20 Revised Estimate (£'000)	2020/21 Estimate (£'000)	2021/22 Estimate (£'000)	2022/23 Estimate (£'000)	2023/24 Estimate (£'000)
Corporate and Democratic Services	1,224	1,287	0	0	0	0
Customer Experience and Improvement	321	186	125	105	55	30
Major Projects and Property	65,056	45,609	49,367	43,761	12,572	12,078
Operational Services	3,510	3,045	2,689	1,211	1,211	1,211
Planning and Economy	120	220	0	50	0	0
ICE Programme	0	281	45	0	0	0
TOTAL Capital Programme	**70,231**	**50,629**	**52,226**	**45,127**	**13,837**	**13,318**

8.6 Implementation of the core programme in 2020/21 will require the use of Council resources, largely through borrowing (£44.210m) together with £8.017m use of grants and contributions including Better Care Fund and an element of developers' s106 contributions.

9. RISK

9.1 There are a number of financial risks that the Council will face over the medium-term. The 2020/21 Budget and the MTFS have been prepared with consideration of these risks, but as with any forecast, an inherent level of risk will remain.

9.2 For Local Government, the key risk is around the nature and scope of local government funding from central government from 2021/22. This report has outlined the key changes that are due to be introduced from April 2021 – 75% business rates retention model and the Fair Funding review. These will bring significant changes to this Council's finances in future years.

9.3 It is very difficult to estimate the impact on Rushmoor. Fundamental changes to the way in which each Council's needs are assessed and funded are difficult to model despite some engagement from Government with local authorities. Therefore, considerable risk and uncertainty remains in the estimates for 2021/22 and beyond.

9.4 The budget has been prepared in light of key financial risks facing the Council over the medium- term, principally:

- Business Rates Retention Scheme – variability, appeals provision, revaluation, moves towards a 75% local retention scheme with a baseline reset and Fair Funding Review
- New Homes Bonus scheme design in 2021/22 at a time this Council will be delivering a significant number of new homes.
- Treasury management issues including interest rates, level of capital expenditure, use of internal resources, borrowing costs. Provision has been made within the MTFS for this risk.
- Impact of the UK leaving the European Union

- Forecasts have been made concerning the impact of Hampshire County Council's proposals on Waste and Recycling included in their Transformation to 2021 programme. Provision has been made within the MTFS for this risk.
- Financial impact of the Capital Programme on the revenue budget – the affordability of the capital programme and future schemes needs to be carefully considered (see paragraphs 5.5 and 5.6 on PWLB rate increase)

10. STATEMENT OF THE CHIEF FINANCIAL OFFICER

10.1 Section 25 of the Local Government Finance Act 2003 places a statutory duty on the Chief Financial Officer to report to the authority, at the time the budget is considered, and the council tax is set on the robustness of the budget estimates and the adequacy of the financial reserves. The Act requires councillors to have regard to the report in making decision at the Council's budget and rent setting, and the council tax setting meetings.

10.2 The Council's Revenue Budget, Medium Term Financial Strategy and Capital Programme have been prepared with reference to the Chartered Institute of Public Finance and Accountancy's (CIPFA) guidance on prudential property investment. As Section 151 Officer, I have also had regard to CIPFA's Financial Resilience Index and the CIPFA Financial Management Code.

10.3 The basis on which the budget for 2020/21 and the MTFS have been prepared has been set out clearly in this report. I am satisfied that the budgets for the General Fund and the Capital Programme have been based on sound and reasonable assumptions.

10.4 The report does set out the core deficit position the council is facing over the MTFS. Progress has been made during the year with a number of savings already identified and being delivered, and a number of savings targets. The council will still be relying on income from commercial property investments and reserve balances to support expenditure plans over the MTFS. The Savings Plan is core to the delivery of financial sustainability, but it important to note that the deficit continues to increase over the medium term.

10.5 It is important that the council is able to balance the budget over the medium term in a sustainable and manageable way through a combination of income, sensible use of reserves and a robust savings plan. Therefore, an ongoing and continuous savings plan, that identifies further budget and efficiency savings over and above those indicated in this report will need to be brought forward into the MTFS.

10.6 The current savings plan includes a target level of savings to be achieved over the medium term. These include commercial property income and organisation modernisation and redesign. There is a risk associated with savings targets. Should these savings not materialise at the level or within the timeframe assumed this will increase the pressure on the Council balances and reserves. The Council will need to identify further savings or ways of reducing spend/increasing income to mitigate this risk.

10.7 Some risks remain, particularly around the economic and financial impact of Brexit. Whilst the country will leave the European Union on 31 January 2020, there remains considerable uncertainty over the MTFS period around the impact this will have on both the national and local economy as further negotiations take place with the EU around the UK's future relationship and any trade deal.

10.8 Risks around inflation and interest rates also remain and may be inexorably linked to leaving the EU. Allowance has been made in the MTFS estimates for inflationary pressures in the General Fund. Future interest rate increases are expected over the medium term, and this must be considered when assessing the level of return on commercial property investments.

10.9 Changes made in April 2013 to the way in which local government is financed could have a material effect on the council's finances if not managed over the MTFS. The council has adopted a local Council Tax Support (CTS) scheme that provides an affordable level of support to local residents. The Council will need to consider the potential impact in future years of increases to claimant numbers if there is a negative economic impact from exiting the EU in January 2020. The Council would need to review the design of the scheme or find equivalent savings across the general fund to mitigate any financial impact.

10.10 The localisation of business rates through the Business Rates Retention scheme does pose a financial risk to the council on two levels. Firstly, that the level of business rates income budgeted for in the MTFS does not materialise. Secondly, the level of backdated appeals remains a significant area of uncertainty. Whilst allowance is made within the calculation of retained business rates income for backdated appeals, these losses could be higher than projected. The introduction of the new rating list in April 2017 and the 'check, challenge, appeal' process has to date reduced the level of new appeals coming through the system. A review of the provision for appeals will be undertaken when completing the NNDR1 and NNDR3 returns which will help mitigate this risk.

10.11 The move to a new local government finance system through 75% Business Rates retention in 2021/22 is difficult to quantify financially. Taken alongside the potential impact of the Fair Funding Review, there is a significant risk to the level of government support to the Council in future years. Pressures faced by authorities with social care responsibilities may see funding shifted from District/Borough authorities to upper-tier authorities.

10.12 For Rushmoor, the future of New Homes Bonus is a significant financial risk with no indication as to what will replace the current system. This is especially pertinent given the anticipated increase in the number of new homes being delivered in the Borough over the next 3 years.

10.13 The General Fund is forecast to remain within range of balances approved in previous financial strategies. The Stability and Resilience Reserve set up during 2012/13 provides a resource to allow the Council to react to the increase in risk and uncertainty it faces over the medium-term and any consequential adverse effect on its financial position. If further savings or reductions in expenditure are not identified and delivered over the medium term, it is likely that the Stability and Resilience reserve will be depleted during 2023/24.

10.14 The Service Improvement Fund, ICE Reserve and the current freedoms over use of capital receipts, also support the Council's endeavour to achieve a sustainable financial position over the medium-term, by supporting key projects, which deliver significant financial benefit to the organisation.

10.15 These proposals will enable the Council to meet the challenges of achieving a balanced budget in the current year, to be protected from potential volatility in its finances and to reshape the organisation to be sustainable over the longer-term.

10.16 In conclusion, I am satisfied that the budget is robust and is supported by adequate reserves.

11. CONSULTATION

11.1 All Members of the Council were invited to a budget seminar on the 20 January 2020 to discuss the budget proposals and the full budget report is available online. Key issues have been highlighted in presentations to various local interest groups.

12. CONCLUSIONS

12.1 Despite the uncertainties around future levels of Government Funding, and the risks around Brexit and the general economic position, the Council has been able to prepare a sound budget whilst maintaining services to residents. The budget will also provide a platform for Rushmoor to address future challenges.

12.2 The budget has been prepared in accordance with the approved budget strategy. This includes the principle of maintaining the Council's general fund revenue risk-based balance at £2m and maintaining other usable reserves to mitigate risk and support improvement.

12.3 The budget allows for the implementation of essential additional revenue items and a substantial capital programme of approximately £52.226m in 2020/21.

12.4 The budget proposals provide for the current Council Tax level to increase by £5 for a Band D property (from £204.42 per annum to £209.42) – an increase of around 10p per week) in line with government assumptions within its settlement funding formula.

12.5 In order to achieve this, the budget proposals will require the implementation of budget savings of £1.436m in 2020/21, together with further savings over the medium term, totalling approximately £16.4m over the period 2020/21 to 2023/24 (cumulative and recurring total). This will require reductions in the Council's service expenditure, and increased income generation, in accordance with the Medium-Term Financial Forecast and the Financial Strategy.

12.6 Reserves continue to be held to support the implementation of key projects and to mitigate against the substantial increased risk the Council is facing, which will be monitored and reported to Cabinet throughout 2020/21.

Background documents:
Medium Term Financial Strategy 2020/21 to 2023/24

Report Author:
David Stanley, Executive Head of Finance, david.stanley@rushmoor.gov.uk 01252 398440

APPENDIX A

Medium Term Financial Strategy (February 2020)

Item	2019/20 LAB (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Corporate & Democratic Services	5,422	5,289	5,322	5,322	5,322
Customer Experience & Improvement	41	19	26	26	26
Major Projects & Property	(4,544)	(4,928)	(5,248)	(5,248)	(5,248)
Operational Services	7,951	7,847	8,061	8,061	8,061
Planning & Economy	2,830	2,548	2,604	2,604	2,604
ICE	468	496	150	0	0
Portfolio Net Expenditure	**12,168**	**11,272**	**10,915**	**10,765**	**10,765**
Less: Capital Charges (Rev)	(1,802)	(1,859)	(1,859)	(1,859)	(1,859)
Less: Pension Adj (Rev)	(187)	(660)	(627)	(592)	(592)
Net Expenditure	**10,179**	**8,753**	**8,429**	**8,313**	**8,313**
Corporate Items (MRP, Interest etc)					
Transfers To/From reserves	(458)	396	1,029	1,176	1,318
Other CI&E	(1,325)	342	342	342	342
MRP	1,410	2,180	3,398	4,415	4,415
Interest Payable	880	1,370	1,944	2,311	2,311
Investment Income	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)
Subtotal	**(1,093)**	**2,688**	**5,113**	**6,644**	**6,786**
Adjusted Budget	**9,085**	**11,441**	**13,542**	**14,958**	**15,099**
Inflationary Provision, Pension costs					
Inflation (Pay)				300	600
Inflation (Contracts/Non-Pay)				200	400
Subtotal	**0**	**0**	**0**	**500**	**1,000**
Adjusted MTFP Position	**9,085**	**11,441**	**13,542**	**15,458**	**16,099**
Budget Proposals/Growth					
ADDITIONAL ITEMS: Variations in Service	201	695	692	692	692
ADDITIONAL ITEMS: Non-recurring	50	214	0	0	0
BUDGET PROPOSAL: Climate Emergency		250			
BUDGET PROPOSAL: Deprivation Strategy		100			
BUDGET PROPOSAL: Ward Budgets		26	26	26	26
RISK: HCC Waste proposals				350	350
RISK: Interest rate risk on borrowing			750	1,000	1,250
Subtotal	**251**	**1,285**	**1,468**	**2,068**	**2,318**
Savings Plan					
2019/20 Savings	(250)	(81)	(81)	(81)	(81)
Reversal of 2019/20 Additional Items		(130)	(160)	(160)	(160)
ICE Programme (Workstreams 1-3)		(150)	(425)	(750)	(810)
ICE Programme (Workstream 4)		(50)	(225)	(500)	(750)
Commercial Property - Rental Income expectations		(887)	(1,698)	(2,377)	(2,922)
Pipeline Savings - Enhanced Commercial Property			(300)	(300)	(300)
Pipeline Savings - Major contracts			(300)	(450)	(600)
Pipeline Savings - Service Loans to Housing Company		(88)	(328)	(528)	(528)
Salaries monitoring	(194)	(50)	(50)	(50)	(50)
Subtotal	**(444)**	**(1,436)**	**(3,567)**	**(5,196)**	**(6,201)**
Proposed Net Revenue Budget	**8,893**	**11,290**	**11,444**	**12,330**	**12,216**

APPENDIX A

Item	2019/20 LAB (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Proposed Net Revenue Budget	**8,893**	**11,290**	**11,444**	**12,330**	**12,216**
Funded by:					
Council Tax	6,409	6,705	6,933	7,166	7,403
Business Rates Retention	3,836	3,625	2,561	2,610	2,662
Other Funding	145	267			
New Homes Bonus	1,010	1,169	550	211	0
Collection Fund - CT	97	101	0	0	0
Collection Fund - NNDR	299	(371)	0	0	0
TOTAL Funding	**11,797**	**11,495**	**10,044**	**9,987**	**10,065**
Core Surplus / (Deficit)	**2,904**	**205**	**(1,400)**	**(2,343)**	**(2,152)**
Additional Transfers					
to Commercial Property Reserve	(2,000)				
to Stability & Resilience Reserve					
to Service Improvement Fund		(205)			
to Regeneration	(450)				
to Regeneration DD	(250)				
to Workforce Planning	(200)				
Core Surplus / (Deficit) after Transfers	**4**	**0**	**(1,400)**	**(2,343)**	**(2,152)**