

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S
REPORT TO CABINET**

16 October 2019

Report Title: Draft Medium Term Financial Strategy 2020/21 – 2024/25

Submitted by: Interim Director of Resources and Support Services

Portfolios: Finance and Efficiency

Ward(s) affected: All

Purpose of the Report

To seek Cabinet endorsement of the Draft Medium Term Financial Strategy 2020/21 – 2024/25 as a basis for consultation.

Recommendations

Cabinet is asked to endorse the draft MTFS 2020/21 – 2024/25 as a basis for consultation.

Reasons

The Medium Term Financial Strategy underpins the whole financial planning structure of the authority. It is closely aligned to the Council Plan and focuses on targeting its financial resources in line with its stated aims and objectives.

1. **Background**

- 1.1 The Council published its Medium Term Financial Strategy (MTFS) for 2019/20 to 2023/24 in October 2018. This is a key document which demonstrates alignment with the Council Plan and how the Council plans to target its financial resources in line with its key priorities and stated aims and objectives.
- 1.2 The MTFS included a set of financial assumptions and forecasts up to the financial year 2023/24, based on the most up to date information available at the time.
- 1.3 This report presents the updated forecast financial position for 2020/21, taking into account the capital strategy and programme approved by Council in February 2019, budget changes identified since the publication of the MTFS and the latest intelligence regarding the 2020/21 local government funding settlement following the Comprehensive Spending Review announcement on 4th September 2019.
- 1.4 There have been a number of changes to the 2020/21 budget, which have resulted in a revised savings requirement for 2020/21 of £1.208m. This report sets out the approach and timetable for addressing this budget gap.

2. **Issues**

2.1 **Comprehensive Spending Review 2019**

- 2.1.1 Local government in general and district councils in particular continue to operate within a severely challenging financial environment. There have been three Comprehensive Spending Reviews since 2010, each of which has had an impact upon local government's strategic financing:

- SR10: published in October 2010, established the initial path of reductions to local government grant funding and the introduction of Council Tax Freeze grant. At the same time as the SR10 took effect, New Homes Bonus was launched for the period of the SR.
- SR13: published in June 2013, continued with the reductions to local government grant funding; the rolling forward of the Council Tax Freeze grant; and the introduction of the Better Care Fund.
- SR15: published in November 2015, again continued with reductions to local government grant funding; introduced reforms to New Homes Bonus; ended Council Tax Freeze grant, set council tax referendum limits at 2% per annum or £5 for District Councils (whichever was higher); and introduced the Social Care Precept at 2% per annum.

2.1.2 In 2019/20 additional one-off funding was provided for social care and council tax referendum limits were increased to 3%.

2.1.3 As a result of these changes to the local government financial system the Council no longer receives central Government funding in the form of Revenue Support Grant.

2.1.4 The Local Government Finance Settlement for 2018/19 announced that by 2020/21 local Councils will retain 75% of business rate revenues. However, the timetable for introducing these changes has now been pushed back to 2021/22 and the Government are yet to publish detailed proposals. For the purposes of the Medium Term Financial Strategy it had been assumed that the Council would be in a cost neutral position once the new system was implemented. This is still the case, although there can be no guarantee of this outcome.

2.1.5 The 3 year Comprehensive Spending Review that was due to take place this autumn has also been postponed. Instead, a single year spending review was announced on 4 September 2019. This is a departure from the norm that has been established over the last decade and is the result of continuing political and financial uncertainty surrounding Brexit, which has meant the government has been unable to produce the Spending Review as originally planned.

2.2 2018/19 Financial Outturn

2.2.1 The Council achieved a balanced revenue outturn position for 2018/19 after the flexible use of £0.500m of capital receipts and transfer of £0.248m to the General Reserve. However, this position masked a number of significant overspends – notably in the waste and recycling service and J2.

2.2.2 As part of the 2019/20 budget strategy adjustments were made to the base budget to address structural deficits in some operational budgets (largely relating to non-achievement of income). Buoyant income from the new chargeable garden waste service has also contributed to a more robust revenue budget position. However, some areas of the Council's revenue budget remain under pressure and will require careful monitoring.

2.2.3 The establishment of a Borough Growth Fund has for the first time in recent years made resources available for investment in key priorities and is easing internal capacity constraints. Nevertheless, the Council is faced with a requirement to live within its means and improve and transform services whilst still operating in an environment of Government resource constraints and uncertainty about future funding prospects.

2.3 Medium Term Financial Position

2.3.1 The MTFs sets out the Council's four-year spending and funding plans, and is the financial framework for the development of the detailed 2020/21 budget.

2.3.2 The latest MTFs, as approved by Cabinet on 17th October 2018, forecast budget gaps in each of the next four financial years as follows:

2020/21: £1.064m

2021/22: £0.764m

2022/23: £0.644m

2023/24: £0.508m

2.3.3 The MTFS has been updated with the latest forecast position. This incorporates the on-going impact of any pressures and mitigations identified in the first quarter's budget monitoring from 2019/20 and newly identified budget pressures. The forecast budget gap for 2020/21 has increased to £1.208m, largely due to the impact of incorporating the Borough Growth Fund into the base budget to provide ongoing funding for Council priorities.

2.3.4 A summary of the revised position, including the updated savings requirement, is shown in sections 14 and 15.

2.4 Financial Planning Cycle

2.4.1 A typical financial planning cycle for a local authority is a continual process of review and challenge of future years' budget assumptions over a medium term horizon. This is based on performance against the current year's budget, incorporating the costs and benefits of business change and responding to political and economic factors within the external environment.

2.4.2 Following the publication of this report, work will continue to further validate all of the key budget assumptions for 2020/21 and beyond. Savings plans are being developed, and these will be finalised ready to present a draft budget for 2020/21 to Cabinet in January 2020. This will allow time for scrutiny and public consultation to be undertaken prior to presentation of the final budget to Cabinet and full Council in February 2020 for formal approval. The budget setting timetable is set out later in this report.

2.5 Budget Planning to Date

2.5.1 Since the publication of the MTFS, the Council has reviewed its 2020/21 budget following consideration of the following areas:

- Priority objectives and service plan delivery;
- Planned business change and opportunities for increased value for money;
- Current levels of service demand and performance against budget; and
- The statutory environment that each directorate operates in.

2.5.2 The key financial assumptions within the MTFS have been refreshed to include the impact of:

- The capital strategy and 10 year capital programme approved by Council in February 2019;
- Demographic and service demand pressures, which have been reviewed based on the latest national and local trends and management information available.
- Expenditure and income inflation indices, which have been reviewed using the latest economic data and contract information.
- An assessment of changes to government grants and funding;
- The Council's operational and financial performance in 2018/19 and 2019/20 with due regard given to the on-going impacts in 2020/21
- Validation of MTFS savings proposals.

2.6 Updated Financial Assumptions Within the MTFS

2.6.1 The key financial assumptions included within the MTFS are set out below:

a) Pay assumptions

General pay inflation - assumed at 2.5% from 2020/21 onwards.

Pension contributions - in line with other employers in the Local Government Pensions Scheme (LGPS) the Council makes an annual additional contribution payment to the Pension Fund to contribute towards the recovery of the deficit on the Fund. This additional contribution payment is set every three years as part of the triennial valuation of the Fund. Following discussions with the Fund's actuary the MTFS has been updated on the assumption that this additional contribution payment will increase by 1% in 2020/21. This is 1% lower than assumed in the current MTFS. The employer's contribution rate does not affect individual employee's contributions or pension benefits.

b) Other pay considerations

The estimated cost of pay increments has been built into the MTFS.

c) Additional Holiday Pay

Staff who work regular voluntary overtime may claim for Additional Holiday Pay (AHP) following a 2017 ruling by an Employment Appeal Tribunal. This ruling has significant implications for any council whose employees work regular voluntary overtime. The estimated cost of this has been built into the MTFS.

d) Inflation Assumptions

Inflation has been calculated for premises and transport related costs including utilities, business rates and fuel based on latest market intelligence and CPI forecasts from Central Government.

e) Flexible Use of Capital Receipts

In February 2019 Cabinet and Council agreed a formal policy on the flexible use of capital receipts and approved the application of £0.5m of capital receipts to finance qualifying expenditure in 2019/20. The use of these resources is 'one-off' and therefore does not form part of the Council's on-going base budget.

The MTFS has been updated to reflect the flexible use of capital receipts in 2019/20 and assumes further application of £0.4m of capital receipts to fund qualifying revenue expenditure in 2020/21. Any new transformation projects that require the use of flexible capital receipts require full Council approval, and as such, an update will be provided as part of the final 2020/21 budget papers.

f) Fees and charges

The MTFS assumes a 3% across the board increase in fees and charges. This increase has not been applied to the following income budgets:

- Car parking charges
- Planning fees
- Land charges

Fees and charges assumptions will be fully reviewed in line with anticipated operational delivery and updated for the draft budget, which will include a full refresh of the Council's fees and charges schedule.

g) Funding

It is currently not known when the local government finance settlement for 2020/21 will be announced by Government; in previous years the provisional settlement has been announced in December.

The 2019/20 settlement was the final year of a four year settlement. It had been expected that a new 3 year Comprehensive Spending Review would take place this autumn, however due to continuing

political and financial uncertainty surrounding Brexit, this has been postponed. Instead, a single year spending review was announced on 4th September 2019.

The government has announced an increase to current and capital spending of £13.4bn in 2020/21, compared to the OBR's forecast at Spring Statement 2019. Resource Departmental Expenditure Limits (DEL) (excluding depreciation) across government departments will increase from £330.8bn to £352.3bn, representing growth of 4.1%.

Most of the additional funding announced has been allocated to the following priorities:

- Health and social care – the government reaffirmed the existing five-year settlement for the NHS, with an additional £33.9bn more per year by 2023/24, compared to 2018/19 budgets, with a real terms 3.1% increase in Resources DEL in 2020/21. There will also be an additional £1bn for adult and children's social care and the government will be consulting on a 2% adult social care precept to enable councils to access a further £0.5bn.
- Education and skills - the schools' budget will rise by £2.6bn in 2020/21, which will include per pupil funding of £3,750 at primary and £5,000 at secondary schools. The additional funding is inclusive of £700m more funding in 2020/21 to support children and young people with special educational needs. £400m of additional funding for Further Education has also been announced.
- Tackling crime – an extra £750m for policing to pay towards the government's commitment to recruit an additional 20,000 officers by 2023, which forms part of a 6.3% real terms increase in Home Office funding;
- Brexit - the Spending Round confirms £2bn of core funding provided to departments for Brexit in 2019/20 will be continued into 2020/21. This money will be used to help pay for the costs of establishing a new relationship with the EU. Brexit preparation grants announced in January 2019 are to be increased to £50,000 per authority.

Local government core spending power is set to increase by £2.9bn, from £46.2bn in 2019/20 to £49.1bn in 2020/21, a real terms increase of 4.3% and cash increase of 6.3%. This compares to a cash increase of £1.7bn between 2015/16 and 2019/20. Business rates baseline funding will increase in line with CPI which is consistent with assumptions made in the current MTFS.

The Government has subsequently clarified that other than in areas with devolution deals existing business rates pilots (including the Stoke on Trent and Staffordshire pilot) will end in 2020/21.

A technical consultation on the spending review is expected shortly. To date there has been no announcement of the potential council tax referendum limit for 2020/21. However, the increase in Core Spending Power implies a limit of between 2.5% and 3.0%.

The following sections set out the specific funding assumptions that have been applied in the MTFS in respect of grant funding, New Homes Bonus, Council Tax and Business Rates.

h) Grant funding

The Council no longer receives any Revenue Support Grant.

The existing MTFS includes a forecast reduction in housing benefit administration grant of £35,000 in each year of the MTFS, reflecting reduced caseloads following the introduction of universal credit. Grant funding for all other services has been assumed to remain at 2019/20 levels, except where there have been specific announcements.

The one year Comprehensive Spending Review for 2020/21 announced further funding of £54m in 2020/21 to help reduce homelessness and rough sleeping, this is in addition to the funding already provided in 2019/20. The allocation for the Council will not be determined until the time of the Local

Government Finance Settlement – due to its one off nature provision has not been made for this in the MTFS.

Brexit preparation grant of £35,000 has been received to date by the Council, again further funding for 2020/21 has been committed to via the Comprehensive Spending Review – due to its one off nature provision has not been made for this in the MTFS.

i) New Homes Bonus

New Homes Bonus is paid on a 4 year rolling basis. Income from New Homes Bonus has been budgeted in line with the confirmed grant announcement, with a reducing balance over the medium term due to funding for earlier years dropping out.

The MTFS has been updated to reflect current forecasts of house building activity. From 2020/21 it is now assumed that the number of new homes built in the borough will be below the threshold for New Homes Bonus entitlement and going forward the Council will therefore receive legacy payments for prior years only.

j) Council Tax

Council Tax increases at the average Band D rate of 2.99% have been applied each year based on the current year level. The Council Tax Referendum level for 2020/21 has not been announced. However, implicit within the calculation of local authority core spending power announced as part of the 2019 Comprehensive Spending Review is an increase of between 2.5% and 3%. A 1% change in Council Tax equates to £0.073m in income.

Growth in the Council Tax Base (the number of Band D equivalent dwellings subject to Council Tax) has been applied based on available intelligence and historical trend data.

k) Business Rates

An additional £0.300m of income relating to Business Rates has been added to the funding budget. This additional funding is due to the Business Rates collection fund being in surplus at the end of 2018/19 and is net of additional provision for appeals.

It is anticipated that the Council's income from Business Rates will increase at an inflationary amount during future years, if there are significant developments undertaken within the Borough this is likely to increase.

l) Business Rates Retention Pilot

Newcastle-under-Lyme has for a number of years participated in a Business Rates pool with the local district and borough councils in Staffordshire. The pool was successful in its application for a 75% Business Rates Pilot for 2019/20 and this has resulted in a projected financial benefit to the Council of £0.200m in the current year. This additional money is 'one off' and is earmarked to provide funding for the renewal of the waste and recycling fleet.

Following the 2019 Comprehensive Spending Review announcement on 4th September the pool has now been informed that the current pilot will come to an end in 2019/20. Agreement as been reached with neighbouring authorities to continue the existing pooling arrangements for 202/21 and the MTFS has been updated to reflect the impact of this.

2.7 Revised Medium Term Financial Forecasts

2.7.1 The refreshed MTFS forecasts are set out in the table below:

MTFS – Pressures 2020/21 to 2024/25

Detail	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Description
Employees:						
Increments	56	46	31	13	6	Employees due an increment in 2020/21
Pay awards	294	301	309	317	324	2.5% pay award assumed for all years
Superannuation increases	60	59	58	56	57	17.1% of increase in salaries
Superannuation lump sum increases	230	74	76	78	80	Increase from the currently discounted figure in 2020/21.
National insurance	48	48	47	45	46	13.8% of increase in salaries
Additional holiday pay	34	1	1	1	1	Holiday pay due on overtime
Premises:						
Business Rates	27	23	24	24	25	Inflationary increase in business rates payable (per CPI)
Utilities	7	7	7	13	7	Inflationary increase in gas and electric (per Department for Business, Energy and Industrial Strategy)
Transport:						
Fuel	6	6	6	12	6	Inflationary increase in fuel (per Department for Business, Energy and Industrial Strategy)
Income:						
Fees and charges	-120	-123	-125	-128	-130	3% increase in fees and charges
New Homes Bonus	347	237	158	192	106	Drop out of New Homes Bonus legacy payments
BRR pilot/pooling - additional income	-200	200	-	-	-	Pooling arrangements ahead of the spending review
Government grant	35	35	35	35	35	Reduction in Housing Benefit /Council Tax Admin grant
Business Rates baseline funding level	-77	-79	-80	-82	-84	Inflationary increase in baseline funding level (per CPI)
New Pressures:						
Borough growth fund	250	-	-	-	-	Contribution to the borough growth fund
Income pressures	219	169	169	169	169	To enable income budgets to be corrected
Jubilee 2 Operating Deficit	100	50	-	-	-	To remove the current operating deficit of Jubilee 2
New waste service - vehicle leasing	90	200	-	-	-	£200,000 held in reserve for year 1 costs
Borrowing/leasing costs	-	340	70	74	394	Revenue costs relating to the capital programme
Waste service	-100	-	-	-	-	£100,000 saving based on initial modelling undertaken
Castle House/facilities management	15	-	-	-	-	Review following full occupancy of Castle House
Asset management system	5	-	-	-	-	Annual maintenance costs of software
Streetscene community payback	25	-	-	-	-	Mainstreaming of community payback Streetscene costs
Rough sleepers service	5	-	-	-	-	Increase in contract costs
One off Budget Items:						
Flexible use of capital receipts	252	-	-	-	-	Flexible use of capital receipts undertaken in 2019/20
	-400	400				Flexible use of capital receipts undertaken in 2020/21
TOTAL GAPS	1208	1993	785	818	1041	

2.7.2 The table below sets out the changes compared to the previously approved MTFS assumptions.

MTFS Change in Pressures from Previously Approved

Detail	Original 2020/21 £'000	Updated 2020/21 £'000	Change £'000	Description
Employees:				
Increments	60	56	-4	-
Pay awards	121	294	173	Assumed 2.5% (previously 1%)
Superannuation increases	31	60	29	Impact of pay award
Superannuation lump sum increases	371	230	-141	Increase negotiated with actuary
National insurance	25	48	23	Impact of pay award
Additional holiday pay	0	34	34	New pressure following 2017 ruling
Premises:				
Business Rates	28	27	-1	-
Utilities	5	7	2	-
Transport:				
Fuel	17	6	-11	Change in government forecast
Income:				
Fees and charges	-96	-120	-24	Assumed 3% (previously 2%), now excludes Car Parks
New Homes Bonus	347	347	-	-
BRR pilot/pooling - additional income	-	-200	-200	Proposed pooling arrangements windfall
Government grant	63	35	-28	No RSG remaining
Business Rates baseline funding level	-77	-77	-	-
New Pressures:				
Borough growth fund	-	250	250	Mainstreaming of Borough Growth Fund
Income pressures	169	219	50	Increased income pressures
Jubilee 2 Operating Deficit	-	100	100	To reduce deficit alongside action plan
New waste service - vehicle leasing	-	90	90	Per approved Capital Programme
Waste service	-	-100	-100	Additional green waste income
Castle House/facilities management	-	15	15	Operating costs re. WIFI
Asset management system	-	5	5	New software maintenance costs
Streetscene community payback	-	25	25	Added to base budget
Rough sleepers service	-	5	5	Increase in contract costs
One off Budget Items from 2019/20:				
One off budget items	-	252	252	Flexible use of capital receipts in 2019/20
		-400	-400	Flexible use of capital receipts in 2020/21
TOTAL GAPS	1064	1208	143	

2.8 Strategy for Addressing the Funding Gap

2.8.1 A number of savings and funding strategies have been identified as being both feasible and sustainable, via a vigorous Efficiency Board process including challenge sessions for each of the Portfolios involving Cabinet Members, the Executive Management Team, Heads of Service and the Finance Manager. The proposed savings identified to date for the period of the MTFS, and the remaining funding gaps are outlined in the table below, with further detail for 2020/21 in the second table.

2.8.2 Beyond 2020/21 the MTFS assumes income from commercial investments of £0.250m in 2021/22 rising to £1.000m in 2024/25. These savings are subject to approval of a commercial strategy and investment programme funded from capital receipts and prudential borrowing which are the subject of a separate report to Cabinet.

2.8.3 In addition, the MTFS assumes efficiency savings of £0.150m in 2021/22 rising to £0.600m in 2024/25 from the digital delivery programme. These savings will be validated following approval of the Full Business case which is expected to be completed by March 2020.

MTFS Funding Strategy 2020/21 to 2024/25

Detail	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
<i>Income</i>	116	50	-	-	-
<i>Commercial Strategy</i>	-	250	250	250	250
<i>Digital Strategy</i>	-	150	150	150	150
<i>Staffing Related</i>	495	37	-	-	-
<i>Good Housekeeping</i>	10	-	-	-	-
<i>Tax Base</i>	351	150	152	154	157
<i>Council Tax Increase</i>	219	227	236	244	253
<i>Contributions</i>	18	-	-	-	-
TOTAL SAVINGS	1209	864	788	798	810
UPDATED MTFS GAPS	1208	1993	785	818	1041
REMAINING GAP	-1	1129	-3	20	231

2.9 Financial Planning Timetable

Event	Body Affected	Date
Consideration of draft MTFS	Cabinet	16 October
Consideration of draft savings proposals	Cabinet	6 November
Budget consultation	Proposed to run from 7 November to 19 December	
Scrutiny of draft MTFS and savings proposals	Finance, Assets and Performance Scrutiny Committee	16 December
Approval of final MTFS and consideration of draft Budget proposals	Cabinet	15 January
Scrutiny of draft budget	Finance, Assets and Performance Scrutiny Committee	16 January
Final budget proposals recommended for approval by Full Council	Cabinet	4 February
Full Council to approve Budget	Full Council	19 February

3. Proposal

3.1 That Cabinet endorse the draft MTFS 2020/21 to 2024/25 as basis for consultation.

4. Reasons for Proposed Solution

4.1 Without a Medium Term Financial Strategy it would be difficult to demonstrate the alignment of resources with the Council Plan. It is also the main vehicle for assessing the Council's position, ensuring efficiency in service delivery and targeting resources to agreed priorities.

5. Outcomes Linked to Sustainable Community Strategy and Corporate Priorities

5.1 The Medium Term Financial Strategy identifies the resources to deliver the corporate priorities of the Authority linked to expected outcomes.

6. Legal and Statutory Implications

6.1 The Medium Term Financial Strategy is not a statutory document but it is considered best practice.

7. Equality Impact Assessment

7.1 Differential equality impact issues will be identified against the key strategies, policies and functions of the Council and will be considered in producing future service improvements, which will then be reflected within the Council's budgets.

8. **Financial and Resource Implications**

8.1 The Medium Term Financial Strategy identifies future years' shortfalls in financial resources which will need to be addressed as part of the Council's budget strategies.

9. **Major Risks**

9.1 Section 25 of the Local Government Act 2003 places a duty on the Section 151 Officer to report on the robustness of the budget. The main risks to the budget include:

- Spending in excess of the budget;
- Income falling short of the budget; and,
- Unforeseen elements e.g. changes to legislation or reductions in government grants and funding distributions.

9.2 Such risks require regular and robust monitoring and it is essential that the Council has sufficient reserves to call on if required. The MTFS assumes that the General Reserve and contingency budget will be maintained at the current level of £1.548m. This will need to be reviewed in due course in the light of Government proposals for the implementation of 75% business rates retention and the outcome of the fair funding review, which are expected to be published in 2020 and will take effect from 2021/22.

10. **Sustainability and Climate Change Implications**

10.1 None.

11. **Key Decision Information**

11.1 Final approval of the MTFS will be a key decision.

12. **Earlier Cabinet/Committee Resolutions**

12.1 None

13. **List of Appendices**

Appendix 1 - Medium Term Financial Strategy 2020/21 to 2024/25.

14. **Background Papers**

14.1 None