Rossendale
BOROUGH COUNCIL

ITEM NO. E2

Subject:	Medium Term Financial Strategy Update		**Status:**	For Publication		
Report to:	Cabinet		**Date:**	27th November 2019		
Report of:	Head of Finance		**Portfolio Holder:**	Resources		
Key Decision:	☐	Forward Plan ☒	General Exception ☐	Special Urgency ☐		
Equality Impact Assessment:		Required:	~~Yes~~/No	Attached:	~~Yes~~/No	
Biodiversity Impact Assessment		Required:	~~Yes~~/No	Attached:	~~Yes~~/No	
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1.	**RECOMMENDATIONS**
1.1	Members note and consider the contents of the report.
1.2	Members make any further recommendations to the report and/or approve the contents and strategic direction of the report.

2. PURPOSE OF REPORT

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

3. CORPORATE PRIORITIES

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

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

4. RISK ASSESSMENT IMPLICATIONS

4.1 All the issues raised and the recommendations in this report involve risk considerations as set out below:

- Financial monitoring of the MTFS and General Fund service departments focuses on the key risk areas of: employee costs, income, implementation of agreed budget savings, emerging issues and opportunities and in particular service department net expenditure.
- Budget setting and the implications for future years is now treated as an integral part of financial monitoring during the current year and the impact of variances being reported will be assessed when officers are considering the detailed 2020/21 budgets in the coming months and any further MTFS updates.
- The Council must explore ways of bridging its February 2019 forecast c.£700k annual

funding gap. Amongst other things, this may include continuing: to become more commercially aware, exploiting digital opportunities and shared services with the aim of growing its resources alongside challenging its cost base and day-to-day expenditure, together with further efficient ways of working.

- Continued financial planning by Central Government and/or the indirect/direct implications of Brexit resulting in: a further reduction of central government resources, its plans for the local retention of 75% of the business rates, the current fair funding review (both now deferred until 2021/22). The revised MTFS has to some degree de-risked this issue (see below). There remains much uncertainty for the future of local government financing – particular at a District level.
- Implications from the Governments latest one year Spending Review and consultation for the 2020/21 finance settlement. For 2020/21 Councils will have a 2.0% cap (previously 3.0%) with regard to Council Tax increases before triggering the risk of a local referendum. This is a significant assumption change (previously 2.99%). The implications for this Council being a loss of a £50k pa cumulative loss in income (ie £200k by year 4).
- Pension scheme funding – initial finding for the 2019 valuation have significant and positive financial implications for the Council (see below). There does, however. remain a risk from a recent Court of Appeal ruling on age discrimination from transitional arrangements which were introduced in relation to a separate Fire Fighter's fund known as the "McCloud" judgement. It is understood that the recent 2019 Lancashire Fund valuation has made some minor allowance but there could be additional cost consequences. If they do materialise they will be factored into future valuations and therefore not likely to impact on medium term costs.
- The other internal departmental operational assumptions in relation to core costs, revenue growth, etc.
- There is an assumption that planned capital receipts and grants will be received to enhance investment returns as a result of minimising the need for internal borrowing and minimum revenue provision revenue costs.
- The Council has finite reserves. Some are specifically identified to support the funding gap over the short term (the Transitional reserve); other reserves set aside are earmarked for specific projects. The Transitional reserve based on paragraph 5.5 below will bridge £1.9m in total.
- It is a legal duty for this Council to set fully funded budget each year. Members should, as part of good financial management, also give consideration to future year financial demands when approving annual budgets.
- Corporate Risk Register implications – see Conclusion at para 9.4.

5. BACKGROUND AND OPTIONS

5.1 The Council last updated its MTFS in February 2019 as part of its budget setting. That MTFS at that time indicated a future annual funding gap of c £700k pa and the use of £511k of reserves to ensure a balanced budget for 2019/20. In-year savings, some being the earlier introduction of planned MTFS savings should reduce the reliance on reserves for 2019/20 (see separate monitoring reports to Cabinet).

5.2 Since February 2019 a number of changes and opportunities have occurred, some of which were reported in the Quarter 1, 19/20 monitoring report to the last Cabinet. They are, amongst others as follows:

- Business rates pooling gains (a one off given the 75% pilot) and the continuation of local

40% pooling arrangement for 20/21 rather than the planned 75% National scheme and a reduction in the future financial benefits (see below para' 5.3)

- A forecast gain in Council Tax billing (this has been factored into 20/21 Council Tax revenues) and the calculation of the Tax base for 20/20 of 20,635 (being 112 more than anticipated).
- Reduction in the maximum increase allowed for Council Tax from 3.0% to 2.0%.
- The recent publication of the draft/interim 2019 Actuarial Pension revaluation which has produced the following changes:
  - An increase in future service rates to 17.6% (previously 15.6%) costing £80k pa
  - A decrease in deficit contributions of c. £800k pa, given a 97% funding level (previously 80% funded)
  - A further opportunity to make a 3 yr prepayment giving an annual saving of c. £50k

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

		2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
Budget Estimates		**9,931**	**9,218**	**9,205**	**9,341**	**9,496**
Estimated Funding:						
Council Tax (+2.0%)		5,591	5,769	5,884	6,002	6,122
Council Tax - growth in base	0.5%		28	56	84	112
Revenue Support Grant		-	-	-	-	-
NNDR (Business rate: Base Line Funding)		2,144	2,187	2,231	2,277	2,325
New Homes Bonus		485	295	213	42	-
Collection Fund Surplus - Council Tax		-	-	-	-	-
NNDR Retained / Pooling		1,200	585	200	200	200
Resources		**9,420**	**8,864**	**8,584**	**8,605**	**8,759**
Surplus / (further savings required)		**(511)**	**(355)**	**(621)**	**(736)**	**(737)**

The key changes to the base budget estimate of £9,931 (19/20) to £9,218 (20/21) are shown below:

2019/20 Base Budget	**9,931**
Employment Costs	226
Contract Inflation	25
Savings	(809)
Volume & Technical changes	(155)
2020/21 Budget	**9,218**

a) The savings are in the main as a reduction in anticipated pension deficit contributions and prepayment discount.

b) The volume & technical changes are as follows:

Revenues and Benefits Contract	(54)
Staff savings	(79)
Licensing fee decreases	12
Net Interest gains	(33)
Misc	(1)
Total	**(155)**

The Key assumptions (and/or changes) to this October 2019 forecast report are:

1. Budget estimates:
    a. Annual pay award 2% pa 20/21 onwards - *no change to assumptions*
    b. Assumes an annual staff vacancy saving of £150k pa – *no change to assumptions*, despite budgeting accurately in 19/20 this remains an annual challenge and represents c. 3% of annual pay costs.
    c. Pension costs for future service increase to 17.6% of gross pay (previously 15.6%) and that pension deficit contributions reduce to below £200k each year, from a previous £1.0m. This does not allow for any potential adverse impact of the McCloud judgement (noted in Risks above). It is assumed that the Council will prepay three years of pension costs of c. £2.6m (April 2020) in order to get a c. £150k discount (5.5%).
    d. Reduction in the future benefits of the national scheme for the 75% local retention of business rates (see below).

2. Council tax to continue to increase annually at 1.99% (previous MTFS 2.99%) with growth in the tax base of 0.5% pa (previously 0.62%). Following the 2019 one year Spending Review 2.00% is to be the Government's maximum before triggering a local referendum.

3. NNDR baseline will increase with inflation (CPI) – no change and confirmed as part of the recent one year Spending Review.

4. Revenue Support Grant (RSG) now no longer received and New Homes Bonus (NHB) having ceased in 18/19, declining as previously reported.

5. National Non-Domestic Rates (NNDR / Business Rates):

    a. Along with the majority of Lancashire local authorities (all but Lancaster) the Council is currently part of a 75% Business rates retention pilot for 2019/20 (one year only). Beyond 19/20 the outlook is uncertain. The benefits of the 75% pilot pooling arrangements were budgeted to increase by £200k pa to £1.2m for 2019/20 with a current, one year only, forecast of £1.4m.

    b. For 2020/21 the Government has postponed the introduction of a new national scheme for the 75% local retention of business rates. However, the previous MTFS assumed a neutral financial position, ie no gains or losses when compared to the previous pooling arrangements and its previous growth benefits to Council totalling £1.0m pa. This previously identified **high risk** assumption means that the financial benefits from growth in the tax base, since the introduction of the retention of local business rates was still retained by councils and is not taken away by any future changes to baseline funding or tariffs paid. As previously stated, this was a significant assumption risk given the value of business rates above our baseline ie £1.0m pa surplus, as it was assumed to be in our core annual funding. Not all councils include any or all growth in their core revenue funding. It is assumed for 20/21 only, that we will revert back to the 18/19 Lancashire wide pooling arrangements (with Districts retaining 40%). Given the risks and uncertainty associated with the future business rates gains, the updated MTFS has been adjusted to reflect a reduction in future gains equivalent to the gains made as a result of the 2019 actuarial pension valuation c £800k. Therefore, the future benefits of NNDR above our baseline share has been reduced from £1.0m to £200k pa as a means of de-risking the MTFS.

5.4 Over the past months, the senior management team have been considering a range of savings options together with an assessment of new challenges and potential risks. Additional potential changes to income and revenue are as follows:

Potential changes	**Notes**	**2020-21 £'000**	**2021-22 £'000**	**2022-23 £'000**	**2023-24 £'000**
Continued reduction in DWP Admin Subsidy		(12)	(24)	(36)	(48)
Whitaker Museum - reduction in support post Lottery bid (current c. £90k)		10	50	50	50
Annual capital contribution (Current £100k) reduce		0	25	25	25
Internal Audit fees - reduce days		5	5	5	5
Spinning Point Phase 1 - Net benefits	1	(6)	20	40	40
Fees and charges: annual increase by at least inf'n of 2%	2	27	54	81	108
CLAW - Grant / efficiencies	3	14	14	14	14
Operations: Commercial activity / increased productivity		20	40	60	80
Digital transformation & service delivery	4	110	110	135	185
Digital transformation & service delivery (included in core budgets)	4	*(32)*	*(32)*	*(32)*	*(32)*
ICT saving / efficiencies		20	20	20	20
Review of partner grant funding		0	0	0	0
New Commercial Investments and opportunities	5	178	257	261	265
NNDR Growth (RBC share 40/56%)	6	20	30	40	50
Spinning Point Phase 2: Investment returns	7	0	0	0	0
Volume & Technical (contingency)	8	**0**	(75)	(75)	(75)
Total		**354**	**494**	**588**	**687**

Notes:

1. Spinning Point Phase 1 is the net impact of the whole scheme development. It reflects the contractually agreed increase in departure charges over a 3-year period and assumes c. £30k of annual retail unit rental income within the new bus station.
2. Fees and charges relate to an average net increase across all income streams. It does not include any specific opportunities that may be available in individual income streams.
3. CLAW reflects a reduction of £10k in the core grant (currently £60k pa) and benefits of £4k to Council now that the capital repayments (MRP) on the solar panels have been completed.
4. Digital Transformation is not unique to Rossendale but is something we and other

councils have been developing. It represents the use of digital technology (eg: smart phones, computers, the internet, social media, etc) to make its operations more streamlined, effective and responsive to meet the needs of residents and businesses and achieve the vision set out in the Corporate Plan. The value of the efficiencies has been reduced compared to the previous MTFS of £250k to one that is more realistic in value. The £32k represents savings already delivered and included within the core budget estimate.

5. Assumes that proceeds from the sale of the ex-Rosso depot are used to finance projects adding £100k per annum to any PWLB backed business case. The Economic Development team have also been successful in a recent Lancashire Enterprise Partnership "Growth Deal" grant bid which will benefit Plot 5 funding arrangements.
6. Represents a retained 40% share of business rates growth across Rossendale. This is somewhat difficult to accurately forecast but is a reflection of continued commercial and economic development.
7. Spinning Point Phase 2 has yet to be concluded. Any business case will add a further net contribution to Council.
8. The volume and technical contingency is a buffer against any further unforeseen cost pressures (eg: legislative, economic, etc.). This may prove to be overly prudent.

Additional comments on potential savings:

1. A number of actions are a clear choice for Council (eg: grants, capital contributions, fees and charges, etc).

2. There is currently a vacant Director post at a cost of c.£100k pa (including on-costs). This has not been included in the above savings, as the post has gone out to advert. Any appointment is a matter for all Members.

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

	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
Initial funding gap	**(511)**	**(355)**	**(621)**	**(736)**	**(737)**
Potential net future savings	0	354	494	588	687
Revised funding (gap) / surplus	**(511)**	**(0)**	**(127)**	**(148)**	**(49)**

The above demonstrate that we are in sight of balancing our finances over the medium term, but not forgetting we have other savings opportunity options to explore. In reality given our overall budget a tolerance below £100k should suffice.

As at March 2019 the Transitional Reserve is forecast to total £1.971m, therefore, assuming the above there are ample resources available to cover the above forecast funding gap.

COMMENTS FROM STATUTORY OFFICERS:

6. SECTION 151 OFFICER

6.1 Financial matters are noted within the report.

7. MONITORING OFFICER

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

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 No further comments.

9. CONCLUSION

9.1 The Council must remain focused on delivering efficiencies and/or income generation in order to ensure balanced and fully funded budgets over the medium term as it still as some way to go based on the above. Failure to do this will result in an accelerated use of finite available reserves.

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

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

9.4 The MTFS has previously been rated within the Corporate Risk Register as "high" risk with a red flag. Given the more positive outlook, the rating can now be recorded as "Medium" with an amber flag.

Background Papers	
Document	Place of Inspection
2019/20 Budget and MTFS reports. 19/20 Quarterly Financial Monitoring reports.	Web (Full Council / Cabinet)