EXECUTIVE **28 OCTOBER 2019**

SUBJECT:	**SETTING THE 2020/21 BUDGET AND MEDIUM TERM FINANCIAL STRATEGY 2020/21 – 2024/25**
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1. Purpose of Report

1.1 To inform the Executive of the likely challenges ahead in preparing for the 2020/21 and future years budget, to set out the parameters within which the Council will prepare these budgets, and to confirm the Council's approach to development of the budget and Medium Term Financial Strategy (MTFS).

1.2 Included in the report is an update on the current economic position and developments in national policy, which gives rise to specific impacts on local government funding. This, along with in year budget monitoring information and emerging issues, will inform the development of the MTFS.

1.3 To detail the arrangements for the integration of the parallel processes of financial, strategic and service planning.

2. Executive Summary

2.1 The financial landscape for local government over the medium term period poses significant challenge to the Council due to the volatility, complexity and uncertainty about future funding. Significant national reforms about future departmental spending through the Spending Review, the allocation of this funding to local government though the Fair Funding Review, and the implementation of the 75% Business Rates scheme, all of which will affect the Council's MTFS, have been delayed beyond 2020/21. In addition, the impact of Brexit and the consequent impact on the economic and political landscapes poses significant uncertainty for central and local government.

2.2 Furthermore, the Council continues to face budget pressures due to changes in use and demand for services as well as escalating costs. It is these escalating pressures, which, if they cannot be mitigated against or contained within existing budgets, may require an increase in the level of savings in the medium term, to be delivered through the TFS Programme.

2.3 In the short term however, and as a direct result of the delay in national reforms, the Council is likely to have a one off gain in budgeted resources as it had previously assumed that the full negative impact of the changes in funding levels and mechanisms would impact in 2020/21, these are now deferred until 2021/22.

2.4 Although the potential of further increases in the level of the Council's funding gap will require further reductions in expenditure and/or an increase in income, this it is not unprecedented and the Council should have some confidence that it has a track record of delivering strong financial discipline and that it can continue to rise to the challenge.

2.5 This successful financial planning to date has enabled the protection of core services for the people of Lincoln, whilst at the same time allowing for significant investment in the City, and its economy, and delivery of the Council's Vision 2020. The Council will continue to adopt this approach, carefully balancing the allocation of resources to its strategic priorities, through its emerging Vision 2025, whilst ensuring it maintains a sustainable financial position.

3. Background

Current Economic Climate

3.1 The prolonged nature of the Brexit uncertainty, including the still real risk of a no-deal exit, together with a deterioration in global economic conditions are resulting in a weakening forecast for the UK's economy. Growth in 2018 at 1.4% was at its lowest since 2012, down from 1.8% in 2017. For 2019 growth improved slightly to 0.5% for the first quarter but then the second quarter showed the economy going into reverse with a contraction of 0.2%. Latest economic forecasts expect the economy to expand by 0.2% in the third quarter, avoiding a technical recession, defined as two consecutive quarters of economic decline. Growth expectations for the UK for 2019 are now estimated at 1.2%, a downgrade from earlier forecasts and reflective of a weaker outlook for trade, investment and productivity amid the continued lack of clarity over the outcome of Brexit and deteriorating global conditions.

3.2 Beyond 2019, the latest outlook indicates that the UK economy is set to stumble down an ever more sluggish growth path over the near term, unless decisive action is taken. The latest forecast for UK growth is a fall back to 0.8% in 2020 before increasing back to 1.2% in 2021. There are however still considerable downside risks to these growth projections given the uncertainties associated with Brexit and the possibilities of trade wars, but there are also upside possibilities if these can be contained or a Brexit deal is negotiated. .

3.3 CPI forecasts are that it is likely to fall back further during 2019 and 2020, remaining below the Government's target rate until late 2020.

3.4 Members of the Bank's MPC voted unanimously to keep rates at their current level of 0.75%. The Bank signalled that prolonged Brexit uncertainty will keep interest rates lower for longer, however it stressed that interest rates could move up or down if the UK left the EU without a deal.

3.5 The longer the uncertainty around Brexit continues, particularly against the background of a weak global economy, the more likely that growth and also inflation will slow reducing the need for the Bank of England to raise interest rates.

Public Sector and Local Government

3.6 Prior to the onset of the current political turbulence surrounding Brexit the Government had intended on making a number of significant national reforms which will have fundamental impacts on the level funding for local government and the mechanisms for distribution of such funding, those being;

- The Spending Review 2019
- The Fair Funding Review
- Business Rates System Reset and introduction of 75% Rates Retention in 2020/21

With the need to focus on the delivery of Brexit, these reforms have now been deferred by 12 months to 2021/22, creating an extended period of uncertainty for local authorities. Updates on each of these key reforms are set out in the following paragraphs.

Spending Round 2019

3.7 The government previously stated its intention to hold a new Spending Review in 2019, covering the period 2020/21 to 2022/23. However, it was announced that a one-year Spending Round (SR) would be provided, covering the financial year 2020/21; and that this would be followed in 2020 by a full Spending Review, reviewing public spending as a whole and setting multi-year budgets.

3.8 The SR was announced on 4th September 2019 and has been delivered within the current fiscal rules, as set out in the Charter for Budget Responsibility. These are to keep the cyclically adjusted deficit below 2% of GDP by 2020/21 (the borrowing rule) and have debt falling as a proportion of GDP in 2020/21 (the debt rule). The government highlights that the deficit was 1.1% in 2018/19, compared to nearly 10% of GDP in 2010 and they therefore believe that it is now possible to spend more on public services. In its March 2019 forecast, the Office for Budget Responsibility (OBR) set out that the government had headroom against its borrowing rule in 2020/21.

3.9 The government has therefore announced an increase to current and capital spending by £13.4 billion in 2020/21, compared to the OBR's forecast at Spring Statement 2019. With this in mind, the SR set out that Resource Departmental Expenditure Limits (DEL) across government departments will increase from £330.8bn to £352.3bn, representing growth of 4.1%.

3.10 The SR has been delivered without an accompanying forecast from the OBR, which will next be provided at the time of Budget 2019, planned for later in 2019. However, the government re-affirms that making sure the UK is prepared to leave the EU on 31st October 2019 is its top priority. The government states that it will not be until this has been delivered that clearer and more meaningful forecasts for the economy and public finances can be made, to set against the spending plans for 2020/21.

3.11 In terms of local government resource the SR has provided local authorities with much of the funding certainty and stability they need for the next year. The Chancellor has announced a funding package of more than £3.5 billion for vital council services. This is the biggest year on year real terms increase in spending power for local government in a decade. This funding will allow councils to meet the increase in cost and demand pressures they face in 2020/21 (these are however primarily in relation to social care pressures). Specifically the SR announced:

- A £2.9bn increase in local government Core Spending power overall, a real terms increase of 4.3% (i.e a cash increase 6.3%). This is the biggest year on year real terms increase in spending power for local government in a decade. This includes;

    - An additional £1bn for adult and children's social care; the government will be consulting on a 2% adult social care precept to enable councils to access a further £0.5bn.

    - Increased Council Tax bases (through 2% increase and growth in tax base) of £1.1bn

    - An additional £54m in 2020/21 to help reduce homelessness and rough sleeping to add to the funding already provided in 2019/20.

- Excluding local tax income, the underlying general funding to local government will rise by £1.1bn or 12.4% in real terms, this compares to a 3.1% real terms increase to NHS England and a 3.3% real terms increase to education.

- Combining the £2.9bn increase in Core Spending Power with announcements in high-needs funding for schools, public health funding and in the increase to the NHS contribution to adult social care through the Better Care Fund, local authorities can benefit from more than £3.5bn of additional resources.

- Confirmation that the Fair Funding Review, Business Rates Review and business rates reset has been deferred by 12 months to 2021/22.

- A proposed Council Tax core referendum limit of 2% but this will be subject to consultation in the Provisional Settlement.

- Baseline funding will be uprated by CPI (which includes RSG).

- Funding to remove negative RSG has been continued for 2020/21

- New Homes Bonus – legacy payments will be honoured but the scheme for 2020/21 is still for discussion with ministers.

- 75% business rates pilots will come to an end and there are no new pilots planned for 2020/21.

- A technical consultation will be issued on the Local Government Finance Settlement with the provisional settlement being announced in early December – this was subsequently following by a technical consultation being issued on 3rd October 2019.

3.12 The Spending Review

As set in paragraph 3.7 above, with the SR 2019 concentrating on departmental budgets for 2020/21 a full multi-year Spending Review will be carried out in 2020. This is to encompass a full departmental spending review setting out the departmental allocations across government including setting the quantum of funding for local government. The time period to be covered by the review is unknown but is expected to be up to 3-4 years.

3.13 Although the SR 2019 announced the fastest planned increase in day-to-day spending in 15 years with growth of 4.1%, and no department seeing a cut in its day-to-day budget, any future Spending Review and future growth will be dependent on the precise nature of the UK's departure from Europe and the subsequent impact on the UK economy. It is therefore too early to assume that the additional resources and growth announced in the Spending Round will continue into the next multi-year settlements, as such there still remains a significant level of uncertainty for local government finance.

3.14 The Fair Funding Review

Whilst the planned Spending Review in 2020 will set the overall quantum for local government funding it will be the Fair Funding Review that creates a new formula for the distribution of this across the local authorities by establishing new baselines at the start of the 75% Business Rates Retention scheme. The review itself focuses on three key elements;

- Determining Need – assessing the relative needs of local authorities determined by a combination of specific cost drivers

- Determining Resources (deducted from need) – assessing each authority's ability to raise resources locally

- Transition (to the new baselines – providing protection for those authorities facing severe funding reductions as a result of changes in their baseline needs.

The importance of each of these three elements will be different for individual local authorities depending on their own local position.

3.15 The latest consultation paper ' A review of local authorities' relative needs and resources – Technical consultation on the assessment of local authorities' relative needs, relative resources and transitional arrangements' was published in December 2018, with consultation closing in February 2019. Whilst this consultation provided further details on the government's guiding principles to test a wide range of options for designing a new distribution methodology it wasn't possible to fully model exemplifications and assess the implications for each authority. From what information was available it is expected that there will be a significant shift of resources away from district councils towards funding statutory social services at county and unitary level. The consultation responses were not responded to by Government and will no doubt be considered as part of further development during 2020. It is likely too that the Review will also take into consideration any new policy decisions on what the focus of local government funding should be in light of any Government priorities.

3.16 75% Business Rates Retention

Before the 2017 election, the Local Government Finance Bill 2016 was prepared with the aim of introducing primary legislation to enact the move from the 50% business rates retention (BRR) scheme to 100% BRR. However the Bill was not included in the Queen's speech following the general election, as such, any move to 100% BRR scheme could not happen without primary legislation changes. Subsequently as part of the Local Government Finance Settlement 2018/19 government announced that local business rate retention would move forward from 50% to 75% in 2020/21 rather than 100% as previously announced. The government has stated though that it is still committed to a long term aspiration of 100% retention of business rates.

3.17 Alongside the publication of the fairer funding review in December 2018 the government also published the consultation paper "Sharing risk and reward, managing volatility and setting up the reformed system". This was the first consultation on 75% retention and included proposals to update the balance of risk and reward and to mitigate volatility in income and simplify the system, this allowed local authorities to assess to some degree how the future system would work and the likely financial implications. There is an established technical steering group and a number of sub-groups that provide information and expert advice on the setting up and implementation of the new system, the groups have been continuing to meet during 2019 and further develop the proposals. However, as with the Fair Funding Review the Government have not yet responded to the consultation responses or issued any further consultations.

Local Government Financial Resilience

3.18 In early 2019 the Housing, Communities & Local Government Select Committee undertook an inquiry into 'Local government finance and the Spending Review 2019'. The result of the inquiry were publicised in July 2019, the summary of which was as follows:

- Funding for local government has been cut significantly since 2010. At the same time as cutting funding, the Government restricted local authorities' ability to raise council tax to fill the gap. In recent years spending reductions have been less severe but local government spending is still much lower in real-terms than it was in 2010. In response to this financial pressure, local government has had little choice but to cut back on the non-statutory services it provides. For example, net expenditure on planning & development and housing services has more than halved and net spending on highways & transport and cultural & leisure services is down more than 40%. Increasing demand for adult social care means that this trend is set to continue unless local government is provided with additional central government funding or the power to raise more revenues locally.

- Almost a decade of funding reductions has been accompanied by a move to business rate retention. This has made the local government finance system more complex, less transparent and has increased risks for some councils. Central government policy has also been inconsistent. NHS funding was protected but funding for adult social care was not. Councils were initially incentivised to freeze council tax but there is now an assumption that they will put it up above inflation. The lack of any council tax revaluation since the early 1990s also means that council tax is becoming disconnected from property values.

- Local government currently faces significant uncertainty. It needs to be able to plan for 2020–21 but there is a risk that the multi-year Spending Review may be delayed. A new funding formula and 75% business rate retention is also due in April 2020. There is also still no sign of the Green Paper on adult social care which was originally scheduled for 2017.

- Local government provides services for everyone but much of its resources are focused on some of the most vulnerable people in society. Children in care, adults with learning disabilities, the elderly in need of care and families at risk of homelessness are all reliant on services funded by local government.

- The current uncertainty for local government and the lack of funding for services must be addressed as a matter of urgency.

3.19 This echo's the work of the Local Government Association who, in their campaign ahead of the Spending Review, published a paper entitled 'Moving the conversation On' highlighting that;

- By 2020, local authorities will have faced a reduction to core funding from the Government of nearly £16 billion over the preceding decade. That means that councils will have lost 60p out of every £1 the Government had provided to spend on local services in the last eight years. In 2019/20, 168 councils will receive no revenue support grant at all.

- New analysis shows that local services face a funding gap of £7.8 billion by 2025. This represents the difference between the cost of funding services at the same standard as in 2017/18, against funding that is estimated to be available to do so. This gap corresponds to keeping local authority services 'standing still' and only having to meet additional demand and deal with inflation costs. It does not include any extra funding needed to improve services or to reverse any cuts made to date.

3.20 This continual pressure on local government finances has already led to questions about the financial resilience of a number of local authorities. There has been the unprecedented step of two Section 114 notices being issued in one Council to restrict non-essential expenditure just as other authorities are making plans to strip back services to statutory services.

3.21 As part of its response to the challenges facing the sector, CIPFA developed a local authority financial resilience index. The aim of the index is to provide an authoritative measure of council's financial resilience, an assessment of the relative financial health of every council, drawing on publicly available information, intended to provide an early warning system where it is needed so that action can be taken at a local level in a timely manner. The index will though effectively rank every local authority as either red, green or amber on the basis of six indicators (four for district councils). Following consultation on the index it is due to be published in a public form in late 2019.

3.22 CIPFA is also intending to implement a new financial management code to support good practice in the planning of sustainable finances. This will reinforce the joint responsibilities of leadership and management within the organisation on financial management. Following consultation in early 2019 the final code is set to be published in late 2019 alongside the financial resilience index.

4. The Council's current year financial monitoring

General Fund

4.1 The financial monitoring report for the first quarter of 2019/20 forecasts an overspend for the General Fund at the year-end of £235,912. The key variance is the reduction in the number of housing benefit overpayments being raised by £368,000.

4.2 Whilst this can be seen as positive in that the number of overpayments are reducing it does in turn create a budgetary pressure. This is a continuation of a trend from 2017/18 and 2018/19 with the transition of benefits customers to universal credit and the use of 'real time' information the level of overpayments raised has drastically reduced. This has led to the budget pressure due to reduced income from the reclaiming over the overpayment from the claimant. This reduction in overpayments raised is uncontrollable and will be an ongoing reduction. The actual forecast reduction in overpayment income recovery is c£500,000 however a one off reserve has been used in 2019/20 to partially mitigate the shortfall. An ongoing budget pressure of £500,000 will therefore need to be resourced in the revised MTFS.

4.3 In addition to the reduction in HB overpayments a further key variance in relation to increased costs and lower income levels for the Christmas Market is anticipated to continue over the period of the MTFS.

4.4 The ongoing impact of these two key variances over the MTFS period is;

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
Housing Benefit Overpayments	500	500	500	500
Christmas Market	89	92	113	118
Decrease in resources	**589**	**592**	**613**	**618**

4.5 Beyond the current financial year there are also emerging pressures around; the level of IT reserve funding given the increasing IT requirements and licensing costs; the potential borrowing costs arising from planned developments, including it's commitment to the Crematorium; and the estimated implications arising as a result of key partners decisions/objectives. Based on current estimates the extent of these pressures is estimated to be:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Decrease in resources	**426**	**433**	**391**	**383**

4.6 Whilst mitigating actions and recovery plans are being developed in response to these existing and emerging financial pressures, which when implemented should reduce some of the forecast risk, it is at this stage not clear by how much these risks will be reduced. The position on the pressures will need to be kept under review during the development of the MTFS as mitigating actions and recovery plans continue to be implemented.

Housing Revenue Account

4.7 The financial monitoring report for the first quarter of 2019/20 forecasts an underspend for the HRA at the year-end of £98,923. The key variance is in relation to a number of vacancies within the service, these are not anticipated to extend beyond the current financial year. In addition, there is a estimated surplus on the housing repairs services, which is repatriated to the HRA, this is as a result of a continual reduction in the use of subcontractors. This surplus to the HRA will be transferred to the Housing Investment Programme via DRF. The ongoing surplus on the Housing Repairs Services is currently being considered for utilisation.

Capital Programme

4.8 The General Investment Programme (GIP) continues to progress in line with the current budget expectations, of the in year budget of £14.977m, £7.260m relates to a commercial property investment which was purchased during the first quarter. The most significant elements of the remaining programme are in relation to new artificial grass pitches at leisure centres, Disabled Facilities Grants and for development costs for Western Growth Corridor.

4.9 The GIP is currently forecasting to have a surplus of capital receipts of £1.756m, subject to completion of a disposal. In addition there is an unallocated capital contingency budget of £845k. There are however a number of competing demands for the allocation of capital resources including demands to maintain existing assets, particularly income generating assets; claims/disputes from 3rd parties that may require additional resource and major capital schemes that may require an element of capital receipt funding as opposed to external borrowing.

4.10 The two key elements of the Housing Investment Programme (HIP), Decent Homes and the New Build Programme continue to progress in line with the current budget expectations with a significant level of expenditure to be incurred during the latter half of the financial year as the construction works for the De Wint new build scheme commences.

4.11 During 2019/20 the Council has been focussing on use of the retained Right to Buy (RTB) receipts through the buyback of former Council dwellings. Prudently, the Council does not budget for one-for-one receipts and treats these as windfall when they arise. The current level of retained receipts, which are required to be spent by 31st March 2020, is £1,172m. If these receipts are not spent by the 31st March then they will need to be returned to MHCLG. This is not a budget pressure but does represent an opportunity forgone. Based on actual expenditure incurred to date, purchases currently being progressed, and future start on site for a new build scheme, the Council is confident that it will not need to return any receipts. This is however monitored by CMT on a monthly basis.

4.12 A significant amount of capital investment in the HIP in 2019/20, is being financed through prudential borrowing. It is therefore essential that the type of debt finance, e.g. loan type, maturity profiles, etc., the timing for the issuing of the debt finance and management of the Council's cashflows is carefully managed to ensure that the revenue implications are maximised.

4.13 Paragraphs 4.1 – 4.12 set out budget pressures that have emerged during the financial monitoring of the 2019/20 budgets and further pressures which may arise in future years. In addition there are range of underlying budget assumptions which may give rise to added budget pressures as set out in paragraph 5.6 below.

5. Development of the Budget and MTFS

5.1 In developing the MTFS the Council has to ensure that the correct balance is struck between ensuring that it directs resources towards its strategic priorities and ensuring that it maintains a sustainable financial position in the medium to longer term. This balance becomes ever more difficult when the level of uncertainty surrounding the Councils future funding resources ahead of the Spending Review 2020 and the future move to 75% retention and business rate reset, as set out above.

5.2 The Council's existing strategic plan, Vision 2020, comes to a natural conclusion in March 2020 and work has now commenced on the development of a new plan. The new plan will continue to progress a vision for both the City and Council for 2030 and will set out in detail the priorities and actions that the Council will deliver through to 2025, to work towards that 2030 Vision.

5.3 The action and projects within the plan will be extracted from a range of sources including, existing work programmes, agreed areas of focus, key ongoing strategic projects and other projects and schemes put forward by Members and officers as contributing directly into the priorities. These key projects will cover both the General Fund and the Housing Revenue Account, as well as the Council's capital programmes.

5.4 In developing the next plan it has been acknowledged that the Council still has a financial savings target to realise over the period of the MTFS so there does have to be a careful balance between delivering a range of new projects that will make a real difference for the city and the need to keep tight control of the council's financial position and also provide the capacity to delivery against both.. This balance will be achieved by creating a mix of exciting, high profile projects that will shape the future of the city, with a range of other projects in keeping with the financial and officer capacity available for delivery. The financial resources required to fund revenue projects will be available in the form of; the one off 'additional' resources that have arisen as a result of the delay in Local Government finance funding reforms, as set out in para 5.8, through earmarked reserves, borrowing capacity, from capital budgets set aside and unallocated capital receipts as well as external grants.

5.5 In respect of the General Fund revenue budget, as the resourcing of the Vision 2025 projects will be funded from the one-off 'additional' resources in 2020/21, and in light of the financial pressures that the Council is currently facing and further risks beyond 2021, the focus of the development of the MTFS 2020-25 will be to respond to and mitigate these pressures, limiting the increase required in the savings targets.

5.6 In addition to seeking to mitigate the budget pressures and continuing to examine the impact of financial challenges post 2021, the development of the budget and MTFS will include the preparation by the directorate and Financial Services of indicative base budgets. These budgets will be prepared on an incremental basis and will only be updated in accordance with the assumptions highlighted below in paragraph 5.8 and detailed in Appendix A. Officers will also review existing savings and pressures in the indicative base budgets and identify any further new/emerging pressures for consideration. <u>The initial intention will be that any service pressures identified will necessitate corresponding additional savings proposals to balance.</u>

5.7 The preparation of the budget and MTFS are based on assumptions for a number of key variables, i.e. business rates, government grants, council tax levels, inflation rates, interest rates, etc. These assumptions are revised on a continual basis in light of the most recent intelligence available and Members should be aware that they will be subject to change as the development of the budget progresses.

5.8 The changes to some of these assumptions create both unavoidable budget pressures as well as the opportunity to realise savings. The main changes to the assumptions for the General Fund, at this point in time, which will have a financial impact are set out below, with further details provided in Appendix A:

Figures in ( ) equate to a surplus	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
Employer Pension Contributions	92	185	278	278
Council Tax	(33)	(34)	(34)	(35)
Business Rates	(1,357)	(74)	(84)	(98)
Interest Payable/Receivable	(171)	47	47	40
Revenue Support Grant	(23)			
New Homes Bonus	(200)	**0**	**0**	**0**
Total changes in assumptions	**(1,692)**	**124**	**207**	**185**

5.9 Whilst the indicative projections above identify a reduction in financial resources (with the exception of 2020/21), it is important to note that these projections do not include the financial pressures that have emerged during 2019/20. Whilst mitigating action is being taken in respect of these pressures in order to reduce the forecast risk there will inevitably be some impact on the underlying budgets. Additionally they are based on a number of high level assumptions regarding local government funding mechanisms post April 2021.

5.10 The Council has a successful track record in delivering savings and over the 10 year period since the onset of austerity measures has delivered savings in excess of £8.4m, a significant reduction in comparison to the overall net expenditure. The Council's approach has centred on planning ahead, securing savings in advance, re-investing in more efficient ways of working and adopting a more commercial approach whilst making careful use of reserves to meet funding gaps, it's an approach that has served the Council well. Although inevitably there has had to be some withdrawal of services the Council has tried to keep this to a minimum and has sought to protect its core services that matter most.

5.11 Despite this success, unless the Council is able to mitigate its emerging financial pressures it may face the prospect of needing to reduce its levels of expenditure further or identify additional resources if it is to remain financially sustainable.

5.12 The current MTFS is predicated on a savings target for 2018/19 of £4.65m, increasing to £5.25m p.a. thereafter. These targets do not yet provide for any increase that will be required in order to maintain a balanced budget.

5.13 The Towards Financial Sustainability (TFS) programme is and continues to be the vital element in ensuring that the Council maintains a sustainable financial position and delivers the required reductions in the net budget. The programme itself has been refocused reflecting the Council's innovative, forward thinking and commercial approach alongside its ambitions to maintain high performing services and a performance culture. As part of this refocus there are now four agreed strands to achieve savings. These are:

- "One Council" – cross organisational lean reviews to deliver a "one organisational" approach more efficiently and effectively
- Commercialisation – generation of new income streams, and commercial trading opportunities
- Investment Opportunities – to invest in commercial properties as well as regeneration and redevelopment schemes that support the local economy
- Service Reduction/Withdrawal – withdraw from some services or reduce the level of service provided for those non priority services

Alongside this programme the Council also seeks ways to maximise its tax bases through economic development measures.

5.14 Progress has been made towards the target for 2019/20 although there is forecasted to be a small shortfall of £27k. For 2020/21, the current programme (incorporating Phase 6a) was set to deliver the required gap of £812k, however there are some schemes which are currently off track which may impact on their deliverability. Mindful of the continued pressures on the MTFS a second phase of proposals (Phase 6b) has now begun the development of outline business cases. Progress, as at September 2019, in delivering the target savings from the TFS Programme is set out in the table below:

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
MTFS savings target	**4,650**	**5,250**	**5,250**	**5,250**	**5,250**
Secured	(4,404)	(4,438)	(4,478)	(4,494)	(4,513)
Savings still required in MTFS	**246**	**812**	**772**	**756**	**737**
Still subject to approval or review/Business Case – Phase 6a	(219)	(656)	(716)	(726)	(734)
Forecast under achievement	**27**	**156**	**56**	**30**	**3**
Subject to Outline Business Case – Phase 6b	0	(205)	(284)	(291)	(298)
Forecast (over) achievement	**27**	**(49)**	**(228)**	**(261)**	**(295)**

The delivery of both of the current phases of the programme, dependent on those schemes in Phase 6b progressed beyond the outline business case stage will leave the Council in the position of overachieving the current savings targets.

5.15 However, in light of the financial pressures identified above the likelihood is that the savings targets will need to increase in order to ensure that the Council maintains its sound financial position. The potential budget gap will only become clearer over the forthcoming months as subsequent government announcements are made, mitigating action is taken, and as further key data and information is available. Revised financial modelling and scenario planning will continue in order to determine the exact impact of the changes as soon as possible and will be used to inform the development of the MTFS.

Housing Revenue Account

5.16 A key element of the HRA self-financing regime is the Council's 30 year Business Plan. The Council's latest Housing Revenue Account Business Plan 2016-2046, was approved in February 2016 following a fundamental review of resources, investment requirements and priorities. The Business Plan reflects the impact of government policy changes, the results of stock condition surveys and financial assumptions at the time. The Business plan sets out:

- the long term plans for the Council's housing stock
- the finances to deliver plans
- how the Council will manage the income from its stock, demand for housing and stock condition
- identifies resources for building new council dwellings.

The current Business Plan is now scheduled for review during 2020, this will be following completion of refreshed stock condition surveys, agreement of a Lincoln housing specification, refresh of the Lincoln standard to reflect low carbon/climate change, progression of the Social Housing Green paper, and to ensure the priority schemes emerging from Vision 2025 are all fully reflected. Pending this refresh the MTFS will continue to be based on the approved Business Plan, updated for revised financial assumptions (as outlined in Appendix A), any government policy changes, updated development and investment profiles and other emerging service factors.

5.17 The changes to some of these assumptions create both unavoidable budget pressures as well as the opportunity to realise savings. The main changes to the assumptions for HRA, at this point in time, which will have a financial impact are set out below, with further details provided in Appendix A:

Figures in ( ) equate to a surplus	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Employer Pension Contributions	49	99	150	150
Interest	5	5	1	(15)
Total changes in assumptions	**54**	**14**	**151**	**135**

Capital Strategy

5.18 The development of the GIP for 2020-25 will focus on resourcing; those schemes emerging from Vision 2025, those that generate new revenue streams and/or maintain existing streams and those schemes that are responding to contractual issues. Given the scale of a number of the schemes, e.g. Western Growth Corridor (beyond Phase 1a), crematorium investment, the level of current unallocated resources available will not be sufficient to fully fund these. It will therefore be essential that other sources of funding such as grant allocations and partner contributions continue to be sought as well as assessing the use of prudential borrowing, specifically for schemes that generate a revenue return sufficient to cover the cost of borrowing.

5.19 The development of the HIP for 2020-25 will be in line with the current HRA Business Plan as per paragraph 5.16 above. Focus will be placed on maximising the use of 1-4-1 retained right to buy receipts as well as assessing the use of prudential borrowing for new build schemes or purchase & repair schemes that generate a rental stream.

5.20 The culmination of the above processes will result in a set of budget proposals, including a revised savings targets that will deliver a balanced budget in line with the Council's strategic priority areas. This will then be subject to public consultation and Member engagement.

Consultation and Engagement

5.21 As set out in paragraph 5.2 above the Council is currently developing a new Strategic Plan for the period 2020-2025. As part of the development, consultation with for staff, public and stakeholders will be undertaken which will also incorporate high level information on the Council's financial position and how to best use its limited resources to support its priority areas.

5.22 Although the consultation on the new Vision 2025 will provide support for the focus of the Council's limited resources the Council is under a duty to annually consult externally as part of its council tax setting process. Therefore consultation will be undertaken in January 2019 but will be based on an online survey and also targeted directly at the Citizens Panel, the key purpose of which will be to;

1. Highlight the proposed budget and Council Tax for 2020/21, seeking views on the proposed increase.

2. Outline the likely scale of longer term financial challenges facing the Council beyond the 2020/21 financial year.

5.22 In addition to the public consultation the Council will also consult directly with the business community through the Lincolnshire Chamber of Commerce.

5.25 Following the success in recent years of the all Member workshops and Budget Scrutiny process a similar process will be followed in early 2020 to ensure that all Members have the opportunity to consider and fully understand the proposed budget, MTFS and council tax recommendations and that a robust scrutiny of the proposals is undertaken.

5.25 A financial planning timetable to deliver a balanced and affordable five year revenue budget strategy and capital programme, in line with the new Vision 2025, is attached at Appendix B.

6. Significant Policy Impacts

6.1 The Medium Term Financial Strategy seeks to deliver the key priorities of the Council within the available level of resource, both revenue and capital.

6.2 The consultation proposals for the draft budget and Council Tax proposals are as set out in paragraph 5.21-5.23.

6.3 This report provides a summary of the financial planning activities across the Council. As a consequence of the development of the MTFS and budget for 2020/21 there may be an impact on certain council services which will be subject to review through the Towards Financial Sustainability Programme. Where individual projects or reviews are being developed, specific equalities implications will be assessed and relevant impact assessments and/or statutory consultation with service users will be carried out accordingly. As the overarching strategic document a separate equality impact assessment will not been undertaken for the MTFS 2020-2025.

7. Organisational Impacts

7.1 The financial implications are as set out in the report.

7.2 The Council is required under statute to fix the level of Council Tax for 2020/21 by 11th March 2020 and in order to do so will have to agree a balanced budget by the same date.

7.3 There are staffing implications associated with the report, especially in relation to the Financial Services Team, where staff will be significantly involved in the preparation of the budgets and MTFS. This resource has been provided for within the Service Plan of the team.

7.4 Specific staffing implications may arise where certain Council services are subject to review through the Towards Financial Sustainability Programme. In such cases the Council's Management of Change Policy will be adhered to.

8. Risk Implications

8.1 There are considerable risks to the Council's medium/longer term budget strategy as a result of; the current economic climate; legislative change; demands for new spend; existing budget pressures and the further significant changes to local government finance post April 2021. The budget process includes the recognition of these risks in determining the 2020/21 budget and MTFS, but it is imperative that the Council continues to build upon its record of delivering significant savings and maintains the strong focus on its Towards Financial Sustainability Programme.

9. Recommendation

9.1 Executive are asked to;

a) note the significant financial challenges that the Council faces,

b) note the projected budget parameters for 2020/21 and future years and note the planning assumptions, as set out in Appendix A,

c) note the budget, strategic and service planning preparation programme, set out in Appendix B.

Key Decision	No
Key Decision Reference No.	N/A
Do the Exempt Information Categories Apply	No
Call In and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
Does the report contain Appendices?	Yes
If Yes, how many Appendices?	Two
List of Background Papers:	Medium Term Financial Strategy 2019-24
Lead Officer:	Jaclyn Gibson, Chief Finance Officer, Telephone 873258

APPENDIX A

KEY BUDGET ASSUMPTIONS MTFS 2020 – 2025

1. The base budget estimates will be prepared on the basis of a number of key assumptions as follows;-

2. Business Rate Tax Base

2.1 The current Business Rates Retention (BRR) scheme was introduced by the government in April 2013 and replaced an element of grant funding. The calculation of income to be received through the BRR scheme is critical in determining the amount of resources that the Council will have available to fund local services.

2.2 Although the Council had forecasted and declared a surplus on its share of business rates in 2018/19 of £1.546m, on the basis of the in-year monitoring position and estimated appeals provisions, by the time of closing the 2018/19 accounts the situation had deteriorated with a reduction in the surplus of £0.530m to £1.016m. This was primarily as a result of changes in the appeals provisions for ATM's following a Court of Appeal ruling. In relation to the business rate base for 2019/20 this was estimated to be £41.977m. Movements in this base are monitored on a monthly basis so that the Council has an early indication of any significant changes. Although it is still early in the financial year, monitoring to date shows that the estimated reduction in the BR base as well as the estimated number of hereditaments claiming Empty Premises Relief has now been as great as anticipated, resulting in an increase in the level of rates to be retained by the Council of c£120k. In addition, the level of hereditaments claiming the retail discount is lower than forecasted resulting in increased rates retained by the Council of c£230k. However as this discount is funded by the Government through a Section 31 grant, there will be a corresponding reduction in grant. The issue however arises due to the timing of these two elements as the grant will be accounted for in 2019/20 whereas the additional rates will be declared as a surplus and accounted for in 2020/21.

2.3 Given the volatility in the retained business rates income and increased financial risk inherent in the scheme, the Council has set aside an earmarked reserve to cushion the impact of fluctuations in retained income and collection fund deficits. The current balance on the reserve is £1.456m with a budgeted contribution of £745k in 2019/20. This reserve will provide the financial capacity to resource the deficit of £530k from 2018/19 with a balance of £1.61m to resource a deficit in 2019/20 if this be declared as part of the budget setting process, and account for the timing difference arising from the retail discount. It will though be essential that the Council seeks to replenish this reserve to provide for future fluctuations.

2.4 The Council also continues to face pressures due to the impact of appeals. Although the cut-off date for appeals against the 2010 list was 31st March 2015 there still remains a significant proportion of appeals to be settled by the Valuation Office, which the Council is required to set provisions aside for. The current provision for appeals against the 2010 list is £3.521m. From 2017 a new ‘Check, Challenge and Appeal’ system came into effect for the 2017 list. The impact of this new process is as yet unknown although it is anticipated to discourage the number of appeals within the system that are unlikely to ever result in a reduced rateable value. This new process also means the Council is not made aware of any lodged appeals until it gets to the appeal stage – any at ‘Check or Challenge’ stage are unknown and therefore cannot be accounted for. However based on data intelligence a prudent provision of £1.956m has been set aside based on a ‘threats’ analysis, bringing the total provision for appeals to £5.477, of which the Council’s share is £3.286m. The settlement of appeals has a two-fold impact on the Council: the pay back of retrospective ‘overpayments’ and the ongoing effect of a lower receipt in future years – a permanent depreciation of the business rates base.

2.5 The current MTFS assumes growth, above CPI, in the annual level of local Business Rates collected will be 1.5% in 2020/21 increasing to 2% pa from 2021/22 onwards. This increase in growth levels towards the end of the MTFS planning period was to reflect some of the major developments scheduled to be undertaken in the City which should result in business rate growth in the medium term. However in light of the current economic uncertainty in the UK the level of assumed growth for 2020/21 will be lowered to 1%.

2.6 The Council is currently part of a Business Rates Pool for 2019/20 along with the County Council and six other Lincolnshire District Councils. The benefit of pooling is that the authorities in the pool can be better off collectively through a reduction in the amount of levy paid to the Government. The arrangements for the current pool are that this retained levy is allocated 40% to the County Council and 60% allocated to the District Council that has generated the business rates growth. The current MTFS had assumed that as a result of the introduction of 75% retained business rates that pooling would cease from 2019/20. However as a result of the delay in the implementation of the new system the Government has announced it will welcome proposals for business rate pools. The Council will therefore express an interest in continuing the current pool arrangements. This is estimated to generate the Council an additional £630k in 2020/21. The MTFS already assumes that there will be no further pooling gains from 2021/22 onwards.

2.7 Again, as set out in the main body of this report the move to a 75% retention scheme and the consequent full reset of business rate baselines to better reflect how much local authorities are actually collecting in business rates have now been moved back to 2021/22. These changes, when implemented, will wipe out gains the Council has built up since the launch of the current system in 2013/14. The current MTFS was prepared on the basis of this full reset and subsequent loss of gains made,from 2020/21. The delay in implementation by one year will result in additional one off resources, estimated to be £763k in 2020/21. Beyond this the assumptions in the current MTFS will remain until further detail of the new system design and reset are made available.

2.8 The overall impact of changes in the assumptions to the level of retained business rates is as follows:

Figures in ( ) equate to a surplus	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Current MTFS 2019-24	4,240	4,695	5,156	5,639
Latest forecast	5,626	4,770	5,240	5,737
Increase in resources	**(1,357)**	**(74)**	**(84)**	**(98)**

3. Revenue Support Grant

3.1 Over the current 4 year funding settlement period, to 2019/20, the Council's level of Revenue Support Grant (RSG), to top up business rate income, has been significantly reducing to the point where in 2020/21 RSG was set to cease and the 75% BRR scheme would come into effect.

3.2 The level of RSG received over the 4-year period has dramatically reduced from £2.585m in 2015/16 to just £0.022m in 2019/20, a reduction of 99.1%. The speed and severity of this reduction was not only as a result of the anticipated reductions in local government funding but also due to unexpected changes in the methodology used to calculate the distribution of the grant.

3.3 As a result of a one year delay in the implementation of the 75% BRR scheme the MTFS will assume that the level of RSG for 2020/21 will be at the same level as the 2019/20 grant allocation, allowing for inflation, i.e £0.023m. Beyond this it be will assumed that there will be no further RSG payable by the Government.

4. Council Tax

4.1 This increased importance of Council Tax, alongside Business Rates, as the principle means of raising revenue makes decisions taken in relation to the levels of Council Tax critical to the delivery of a sustainable MTFS.

4.2 Council Tax collection rates have remained buoyant with an in year collection rate for 2018/19 of 96.76%, although this was a decrease of 0.41% from 2017/18. Furthermore, the reported collection rate does not include the collection of previous year's arrears, typically about 40% of the arrears are collected each year.

4.3 The current collection rates assumed in the MTFS were set at 98.75% p.a. Based on the performance of the collection rates during 2018/19 and year to date in 2019/20, and the current position of the Collection Fund, it is considered reasonable at this point to continue with assumed collection rates to 98.75% p.a. These will however be kept under review.

4.4 In calculating the Council Tax base the overall yield is reduced by the estimated numbers of claimants entitled to support under the Council's Local Council Tax Support (LCTS) scheme and the eligibility criteria of the scheme. The more Council Tax support that is awarded the more the taxbase is reduced, limiting the ability to raise Council Tax.

4.5 Since the introduction of the scheme in 2013/14 the number of claimants has decreased by 20% over the period. This reduction has been a reflection of a national picture for rollout of Universal Credit and drops in unemployment levels, with unemployment currently running at 3.8%, a 35-year low. The MTFS currently assumes that from 2019/20 the number of claimants will remain stable. However on the basis that the full service roll-out for new UC claimants is still gaining momentum in Lincoln, during 2019 and 2020, the MTFS will be prepared on the basis of a reduction in the working age claimant caseload of 1% in 2020/21 with a constant caseload being maintained thereafter.

4.6 At this stage in the development of the MTFS current entitlements under the LCTS Scheme are being reviewed with public consultation taking place from 30th October for 6 weeks. Any adjustments to the scheme or indeed to the Council Tax discretions that are applied will be reflected in the final MTFS following consultation and subsequent Executive approval.

4.7 The current MTFS assumes an annual increase in the council tax base of 1.25% as a result of new property development. Although the Council aims to bring forward significant housing development on the Western Growth Corridor site, until a planning determination has been made no further increases in the council tax base will be assumed. The revised MTFS will therefore continue to be based on the assumption of growth of 1.25% p.a.

4.8 The Spending Round 2019 assumes a 2% (or £5, if greater for Districts) Core Referendum Principle and a 2% Adult Social Care Precept. This was reaffirmed in the Local Government Finance Settlement: Technical Consultation issued in October. For the Council a 2% increase in Council Tax is greater than £5 so this additional discretion is not applicable and does not increase the ability to raise further Council Tax.

4.9 The current MTFS assumes Council Tax increases from 2020/21 onwards of 1.9% p.a. In light of the assumptions made in the Spending Round the MTFS will continue to be prepared on this basis,

4.10 Based on the assumptions as set out above and using the latest Council Tax base position, estimated Council Tax yields are as follows:

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
Current MTFS 2019-24	6,906	7,140	7,382	7,632
Latest forecast	6,939	7,174	7,416	7,666
Increase in resources	**(33)**	**(34)**	**(34)**	**(34)**

5. Other Government Grants

5.1 New Homes Bonus

The NHB was introduced in 2011/12 with the intention of encouraging the development of new homes. As at 2019/20 the Council were in receipt of £720k, although this still represents a significant proportion of the Council's overall income sources, it is much reduced from levels received in 2016/17 of £2.3m. This position is not dissimilar for many other shire districts, who as a type of authority have been the biggest net beneficiaries of the scheme to date.

5.2 There have been a number of adjustments to the scheme in recent years with the aim of delivering the scheme within a reduced cost envelope, this has included the introduction of a deadweight and a reduction in the number of years grant legacy payments are paid for.

5.3 The Local Government Finance Settlement: Technical Consultation published in August 2018 announced that for 2020/21 the Government intended to explore how to incentivise housing growth most effectively, referencing the Housing Delivery Test results, signalling a change to the current New Homes Bonus grant system. As a result of the delay in the Spending Review and local government finance reforms the future of the scheme is still subject to further discussion.

5.4 However, the Local Government Finance Settlement: Technical Consultation proposes £900m of funding for New Homes Bonus in 2020/21. With this funding it proposes to pay the three years' legacy payments that are due from 2017/18 to 2019/20 and pay a new year of funding for 2020/21; but reserves the right to alter the deadweight (which has remained at 0.4% since its introduction in 2017/18). The paper also outlines, subject to Spending Review 2020, the government's intentions for 2021/22 and onwards. It states that that the 2020/21 allocations will not result in legacy payments being made. From this it can be assumed that for 2021/22 only previous years' legacy payments will be due. It can also be assumed that, aside from legacy payments, the scheme will be stopped or replaced by an alternative scheme, reaffirming the August 2018 announcement.

5.5 The current MTFS prudently assumes that the current NHB beyond 2019/20, but that the legacy payments continue for a 4 year period. In light of the technical consultation it can now be assumed that there will be a new year of funding in 2020/21. Based on the Council Tax Base information submitted in year, on which the NHB is based, and assuming the deadweight remains unchanged, it is estimated that the amount of new NHB grant will be in the region of £200k in 2020/21. Beyond this the MTFS will be based on its current assumptions.

Housing Benefit/Council Tax Support Admin Grant

5.6 It continues to be difficult to forecast the likely level of future funding in respect of Housing Benefit Admin Grant due to the continual delay in the roll out of Universal Credit (UC). The Council began roll out of the full service for UC in March 2018, full Service is available to all new UC claims previously eligible for the six separate benefits. All new UC claimants have their housing cost element included in their monthly UC payment which is administered by the DWP, and as a result, they will not make a Housing Benefit claim but can still make a claim for Local Council Tax Support. The next stage requires the migration of all remaining existing claimants to full UC by 2023, this process commenced in 2019 with one local authority acting as a pilot. There is still much debate and decisions to be made by the Government as to what role local authorities will play in the longer term, but there is a commitment from the DWP to work with authorities until all working age claimants are transferred, 2023 at the earliest.

5.7 Although this commitment has been made the DWP have yet to announce a permanent funding model going forward. For 2019/20 the Council's main Administration Grant reduced by 12% in respect of the roll out of UC and in line with the reductions in the DWP's baseline funding. In addition the Council continues to receive New Burdens funding which is allocated on an annual basis, this is primarily in relation to UC and other welfare reforms e.g. administering the benefit cap. Furthermore, the Council also receives a grant from the MHCLG in respect of the Council Tax Support element of administration funding, this reduced by 6% in 2019/20 and was allocated on the basis of caseload data.

5.8 Beyond the current years funding there is no clearer position on what future grant levels are likely to be and the Council faces an annual wait for funding announcements to be made. At this stage the MTFS will be prepared on the basis of the current level of overall core grant funding, which may ultimately be received through a combination of Administration Grant and any New Burdens funding. Once the grant allocations are announced due regard will need to be taken of this in terms of the service planning for the revenues and benefits service.

6. Inflation

6.1 CPI was at 1.7% in August 2019, down from 2.1% in July. Latest forecasts are that it is likely to fall back further during 2019 and 2020, before slowly rising and settling around 2% from 2021, back in line with the Government's target rate of 2%. In respect of the general inflationary increase applied within the MTFS this is normally maintained in line with CPI projections. The current MTFS assumes a 2% p.a., in light of these latest forecasts it is not proposed that his assumption be changed at this time. This excludes inflation on general running expenses which historically have had no allowance for inflation; there is no change in this assumption.

6.2 Annual price increases in a number of the Council's contracts are linked to RPI or RPIX at a defined date in the year, primarily December and March. The latest forecasts are that RPI will rise from 2.6% in August 2019, to around 2.9% by the end of the year, with a longer term forecasts remaining at around 3% - 3.1% thereafter. The current MTFS had been based on the assumption of a 3% RPI increase for 2020/21 – 2023/24, it is not proposed to change this assumption.

7. Pay

7.1 The last agreed pay award, covering the two year period 2018/19 – 2019/20 saw an average pay award of 2% p.a., but with a higher increase of more than 15% for the lowest paid staff. Beyond the end of the two-year deal a claim has been put to the employers' side of the National Joint Committee (NJC) for Local Government Services for a £10 per hour for the lowest paid spinal column point and a 10% increase on all other pay points. The implications of this claim would cost more than £1bn across local government. Agreement of a final pay award will no doubt be the subject of considerable further negotiations over the coming months.

7.2 The current MTFS is based on the assumption of further pay awards of 2% p.a. for the period 2020/21 – 2024/25. At this stage in the development of the revised MTFS this will continue to be the assumption, however this may be subject to change dependent on the development of the NJC negotiations.

7.3 In addition the Council remains committed to paying its lowest paid workers at the level of the Living Wage, as recommended by the Living Wage Foundation as opposed to the Government's National Living Wage. An assumption of annual increases of 3%, in line with RPI projections, are currently built into the MTFS to reflect this commitment to maintain the Living Wage. It is not proposed to change this assumption at this stage.

8. Local Government Pension Scheme

8.1 The last triennial review of the Council's Pension Fund took place as at 31 March 2016 and the results identified that there had been a slight increase in the funding position since the last actuarial review from a 67% funding level to 70%. Although the overall funding position had improved slightly the employer contribution rates were increased to improve the funding position further. For employers such as local authorities, the actuary, because of the guaranteed nature of the funding, was able to recommend a stabilisation approach whereby the employer contribution is capped at an affordable level. This has allowed the contribution rate to be capped at 1% p.a. for the three years covering the valuation period 2017/18 – 2019/20.

8.2 The latest triennial review is currently being undertaken based on 31st March 2019 with the results of this review expected in late Autumn. Although at the time of the last review the funding position had improved slightly, it is highly probably that as a result of the economic instability caused by Brexit that the value of the Council's scheme assets will have fallen. Alongside this the impact of a number of recent legal rulings, i.e. McCloud and GMP equalisation, on member benefits will give rise to a past service cost and subsequently increase in the scheme liabilities. As result of this changes it is highly probable that the funding position on the scheme will have deteriorated with a likely further increase in required contributions. Based on the current stabilisation approach in place it can be assumed that further increased in contribution rates of 1% p.a. for the 3 year period 2020/21 - 2022/23 will be required.

8.3 One the assumption of a 1% p.a. increase in pension contributions, it is estimated to result in the following additional costs:

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
General Fund	92	185	278	278
Housing Revenue Account	49	99	150	150
Total	**141**	**284**	**428**	**428**

9. Fees and Charges

9.1 The MTFS will, at this stage, be prepared based on the existing income budgets, allowing for an overall increase of 3% per annum in the total yield from fees and charges. This does not preclude individual fees and charges being increased by more or less than 3%. This increase of 3% per annum is in line with the projections for RPI used for the Council's contractual commitments. The MTFS will therefore be prepared on the current assumption of a 3% increase in overall yield per year.

10. Investment Interest and Borrowing Costs

10.1 The Council continues to experience significantly low level of investment rates due to the low Bank of England Base Rate. The current Base Rate, which hasn't changed since August 2018, although only at 0.75% is at it's highest level for almost a decade. The Bank have signalled that prolonged Brexit uncertainty will keep interest rates lower for longer, however it has also stressed that interest rates could move up or down if the UK left the EU without a deal. This makes the forecasting of future rates extremely challenging.

10.2 Based on revised assumptions for the level of interest rates over the period of the MTFS and assumed levels of available cash balances split between fixed and variable rate investments, the latest forecasts in comparison to those assumed in the current MTFS, are as follows:

	2020/21	**2021/22**	**2022/23**	**2023/24**
Revised Average Investment Rate	0.73%	0.78%	0.88%	1.00%
Current MTFS	0.93%	1.00%	1.05%	1.08%

General Fund

Revised interest	£74k	£76k	£85K	£95k
Current MTFS	£82k	£85k	£88K	£89k
Increase/(Decrease) in resources - GF	£8k	£9k	£3k	(£6k)

HRA

Revised interest	£31k	£37k	£46K	£60k
Current MTFS	£35k	£42k	£47K	£45k
Increase/(Decrease) in resources	£5k	£5k	£1k	(£15k)

10.3 The Council's sensitivity to changes in interest rates is linked more markedly to investments rather than to the portfolio of borrowing as all borrowing is at fixed interest rates. However, new borrowing is subject to the prevailing rates at the time the borrowing is taken and as such is subject to changes in interest rates and also the action of lenders, in particular the Public Works Loans Board which is the Council's main source of borrowing. The PWLB in early October announced an immediate increase of 100 basis points on all local authority borrowing. This was in direct response the Treasury's concerns about the significant increase in local authority borrowing over the past 12 months. Whilst this does not impact on any borrowing already in place it will have a detrimental impact on the development of new schemes, particularly those which were generating a revenue return to fund the cost of borrowing.

10.4 Based on the current forecasts for interest payable on new borrowing, averaging 3.5% (this has recently , and any short term temp borrowing undertaken, averaging 2.5%, the latest forecasts for borrowing costs in comparison to those in the MTFS are as follows:

General Fund

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
Current MTFS 2019-24	1,667	1,625	1,619	1,617
Latest forecast	1,488	1,663	1,663	1,663
Total	**(179)**	**38**	**44**	**46**

An assessment of the borrowing levels and associated costs for the HRA is currently being undertaken in light of the additional borrowing that has been undertaken linked to the use of the retained 1-4-1 RTB receipts. This will be used to inform the development of the HRA.

11. Housing Rents

11.1 The current MTFS and HRA Business Plan 2016-2046 were prepared on the basis that beyond the 4-year period of 1% p.a. rent reductions, 2020/21 onwards, that social rents would increase by CPI+1% p.a. This increase from 2020/21 is in line with the Government's announcement in October 2017 that from April 2020 social rents will increase by CPI+1% for 5 years. The approach beyond 2025 remains uncertain but there is an expectation that social rent increases will remain. Budgeted increases for supported accommodation continue to be assumed on the same basis.

11.2 Including in the Council's housing stock are a number of properties that were partly funded by HCA grants on the condition that they are to be let on the basis of an affordable rent rather than on social rents. In addition there are a number of other dwellings that are let on the basis of an affordable rather than social rent. Affordable rents are not subject to Government Rent Restructuring Policies and are let at 80% of market rent levels in the local area. The current MTFS assumes rental increases in line with social rents for its affordable rents, and will continue to be developed on this basis.

11.3 At the end of 2018/19 rent collection levels where at 99.24%. Collection rates for 19/20 have reduced slightly with performance for the first quarter of 98.17%. Although this has reduced, it is still above the target for the year of 96.50%. The primary reasons for this dip is as result of Universal Credit rollout. Officers are working hard to minimise the effect delays in tenants receiving their first UC payment may have and early intervention to address rent arrears as well as working with officers in the UC Support Team continue to have positive effects. The current MTFS assumes a collection rate of 99% p.a. at this stage in the development of the MTFS this assumption will remain however collection levels will continue to be monitored with the MTFS updated if appropriate.

12. **Level of Revenue Reserves** - The prudent minimum level of reserves for the General Fund has been increased in recent years in light of the increased level of volatility in funding and the level of the increased risk to which the Council is now exposed. At this stage it is assumed that the optimum level of reserve holdings needed to meet the requirements of a working balance and contingency will remain at these increased levels, between £1.5m - £2m for the General Fund, and at £1m for the HRA.

APPENDIX B

BUDGET AND FINANCIAL PLANNING TIMETABLE 2020/21

No.	Target Date	Completed	Group	Deliverable	Responsible Officer
1.	**Member Briefing Sessions**				
1.1	*TBD – W/C 28th Jan 20*		All Members	All member workshop presenting the draft budget proposal for 2020/121 and Medium Term Financial Strategy 2020-2021.	CFO
2.	**Base Budget Preparation**				
2.1	4th Oct 19		AD's/ Service Managers	Budget guidance and working papers circulated to Assistant Directors and Service Managers for preparation of base budgets, including notification of Directorate Cash Limits.	Finance Team
2.2	1st Nov 19		AD's/ Service Managers	Completion of service cash limit budgets by budget managers.	Finance Team
2.3	8th Nov 19		DMT's	Review of summary cash limit budgets and appropriate revisions made with AD's and DMT's.	Finance Team
2.4	26th Nov 19		CMT	Review of summary cash limit budgets and consideration of unfunded budget items. Review of funding assumptions of existing capital programme and consideration of allocation of resources to strategic schemes/contingencies.	FSM
2.5	3rd Dec 19		CMT	Review of Fees & Charges Schedules for 2020/21	FSM
2.5	7h Dec 19		Financial Services	Completion of consolidated base budgets and capital programmes.	Finance Team
2.6	7th Jan 20		CMT	Review of draft budget proposal for 2020/21 and Medium Term Financial Strategy 2020-2025.	CFO
3.	**Service Planning Preparation**				
3.1	17th Oct 19		CLT/SM joint forum	Service planning for 2020/21 launched with a consultation on identifying relevant projects under strategic priorities proposed for	CMT

No.	Target Date	Completed	Group	Deliverable	Responsible Officer
				Vision 2025	
3.2	18th Oct – mid December 19		DMT's and PH meetings	As part of the Vision 2025 development - agree strategic priorities for the year ahead, per directorate, arising from corporate and service area needs, and legacy projects from the Vision 2020. Conflicts and any resulting budgetary issues to be reconciled through the V2025 process	Directors/ AD's (Incl. Planning)
3.3	18th Oct – mid of Dec 19		Public consultation	Public consultation on the emerging priorities and projects	CMT, Exec and Policy
3.4	28th Oct 19		SRG	Consultation on the priority projects emerging out of Vision 2025 evidence – this will provide the base for detailed service planning	PH's and Directors
3.5	20th Dec 19		CMT	Draft version of Vision 2025 completed for discussion at CMT (7th Jan)	Policy Unit
3.6	24th Feb 20		Exec	Exec to approve the final Vision 2025 which will give approval to the key elements of service plans	CMT
3.7	By 28th Feb 20		EDMT's	Draft service plans for the year ahead reflecting the proposed projects from the V2025 priority themes - negotiating directly where there is a resource impact on other directorates	AD's
3.8	3rd Mar 20		Council	Council to approve Vision 2025	Leader
3.9	18th Mar 20		CLT	Progress on service plans	AD-SD/Policy Unit
3.10	19th Mar 20		SM Forum	Update on progress with Service Plans for information	Policy Unit
3.11	20th Mar 20		DMT's	Draft service plans completed and agreed with Director.	AD's
3.12	31st Mar 20		Authority-wide	Service plans published.	Policy Unit
3.13	Oct 20		AD's/ Service Managers	Service planning for 2020/21 launched with a focus on delivering progress against year 2 strategic priorities	Policy Unit
4.	**Consultation and Scrutiny**				

APPENDIX B

No.	Target Date	Completed	Group	Deliverable	Responsible Officer
4.1	Jan/Feb 20– *dates to be confirmed*		General Public Stakeholders	Online budget consultation Specific stakeholder events	CFO CMT
4.2	5th Feb 20		Budget Scrutiny Review Group	Consider and review the draft budget proposal for 2020/21 and Medium Term Financial Strategy 2020-2025, making any recommendations to the Executive.	CFO
4.3	6th Feb 20		Audit Committee	Consider and review: • Prudential Indicators 2020/21-2022/24 • Treasury Management Strategy 2020/21 with responses to the Executive	FSM
4.4	20th Feb 20		Performance Scrutiny Committee	Performance Scrutiny Committee – Consider response from Budget Review Group and refer to the Executive.	CFO
5.	**Committee Approval Process**				
5.1	28th Oct 19		Executive	Consideration of the budget strategy to be adopted for the 2020/21 process, including; • Assessment of 2019/20 budget monitoring • Update on economy and financial environment, • A revision of MTFS assumptions • Consultation proposals (both public and with Members)	CFO
5.2	16th Dec 19		Portfolio Holders	Assessment of Fees & Charges Schedules for 2012021	FSM
5.3	6th Jan 20		Executive	Approval of Council Tax Base for 2020/21, Council Tax Support Scheme 2020/21 and Estimated Collection Fund Balance for 2020/21 for Council Tax.	FSM/HSRB
5.4	*TBC Jan 20*		Portfolio Holders	Assessment of overall capital and revenue budgets	CFO
5.5	20th Jan 20		Executive	Approval of a draft budget proposal for 2020/21 and Medium Term Financial Strategy 2020-2025 for	CFO

APPENDIX B

No.	Target Date	Completed	Group	Deliverable	Responsible Officer
				formal consultation.	
5.6	20th Jan 20		Executive	Approval of Business Rate Base for 2020/21 and Estimated Collection Fund Balance for 2019/20 for Business Rates.	FSM/HSRB
5.7	20th Jan 20		Executive	Consideration and recommendation to Council for approval of the Housing Rent Levels for 2019/20.	AD-H
5.8	21st Jan 20		Council	Approval of Council Tax Base for 2020/21 and Council Tax Support Scheme 2020/21.	FSM/HSRB
5.9	24th Feb 20		Executive	Approval for referral to Council of: • Final budget proposals for 2020/21 • Medium Term Financial Strategy 2020-2025 • Treasury Management Strategy 2020/21 & Prudential Indicators • Council Tax levels for 2020/21 • Fees and Charges levels for 2020/21	CFO
5.10	25th Feb 20		Council	Approval of the Housing Rent Levels for 2020/21.	AD-H
5.11	25th Feb 20		Council	Approval of; • Final budget proposals for 2020/21 • Medium Term Financial Strategy 2020-2025 • Treasury Management Strategy 2020/21 & Prudential Indicators • Council Tax levels for 2020/21 • Fees and Charges levels for 2020/21	CFO