Medium Term Financial Strategy 2020/21 – 2022/23

Report of the Finance Portfolio Holder

Recommended:

1. That the Medium Term Financial Strategy (MTFS) for 2020/21 to 2022/23 be approved.

2. That the Medium Term Financial Forecast outlined in Annex 3 to the report be noted.

SUMMARY:

- This MTFS sets out the framework within which the 2020/21 budget will be prepared.
- It also sets out the Medium Term Financial Forecast for the General Fund Revenue Budget together with details of Revenue savings, which will form the basis of the 2020/21 budget.

1 Introduction

1.1 The Constitution sets out the processes for preparing the Council's budget. The Cabinet is required to consult with Members and other Committees in formulating the budget proposals to be presented to Council.

1.2 The MTFS sets out the key financial assumptions that have been made in producing the Medium Term Financial Forecast and sets out a proposed framework within which to work over the life of the strategy.

1.3 It should be stressed that all of the options and assumptions in this report, relating to any potential budget changes, are for indicative planning purposes only. Final decisions on the overall Budget and Council Tax level will not be made until February 2020 once the Local Government Finance Settlement has been announced. These decisions can only be made by Full Council.

2 Background

2.1 This MTFS complements the Council's Corporate Plan and sets out a clear framework for financial decision making. The Corporate Plan makes clear what the Council's priorities are, and the MTFS sets out how the financial management process will contribute to delivering these priorities.

2.2 The MTFS has been produced at a challenging time for the Council's finances. The Council has a balanced budget and reserves are at a safe level – but there is little room for manoeuvre and savings will be required in future to maintain financial stability. The Government and the public expect that Council Tax increases are kept to a low level and the Council is committed to achieving this. At the same time, expectations on the Council to provide efficient and effective services have never been higher.

2.3 2013 saw a radical change in the world of local government funding. Localisation of business rates and of support for council tax has had a profound effect on local authority finances and the level of funding risk that individual authorities face. The implications of these changes have been and continue to be monitored carefully to ensure that any adverse financial impacts are addressed as soon as possible.

2.4 Universal Credit is replacing a number of means-tested benefits for working age residents including Housing Benefit. The Universal Credit Full Service has been live in all Jobcentres in the Test Valley area since July 2018 which means the gateway to new claims for Housing Benefit for most customers living in the Borough is now closed. The Council will continue to assess claims for Council Tax Support and some Housing Benefit claims (including customers living in temporary or supported accommodation and pensioners). All existing legacy benefits cases including Housing Benefit cases for working age customers are expected to migrate to Universal Credit over the period to 2023. There is likely to be a reduction in the workload of the benefits team as cases migrate to Universal Credit.

2.5 Whilst Universal Credit will replace Housing Benefit for most working-age customers in Test Valley, the Council will continue to operate a Council Tax Support scheme to claimants in receipt of both these forms of support. The cost-effectiveness and complexity of the current scheme will be kept under review. The Head of Revenues will bring forward options for changes to the scheme in 2020.

2.6 Funding levels for Local Government have never been more uncertain. The Spending Round 2019 announced by the Chancellor, Sajid Javid, on 4th September confirmed that there would be a one year finance settlement in 2020/21, but details will not be available until some time in December following the release of the Provisional Local Government Finance Settlement. Things become even more uncertain beyond 2020/21 as funding for Local Government will be heavily impacted by the re-distributional effects of the Fair Funding Review, the reset of the Business Rates Retention Scheme and the expected gradual withdrawal of the New Homes Bonus. Details of these major changes are not expected until the Government publishes its consultation papers sometime in summer 2020.

2.7 This MTFS includes a forward look over the next 3 years, to anticipate additional spending requirements, and the level of savings that will be needed to keep Council Tax affordable. By anticipating financial pressures now, the Council will be in a better position to meet the challenges ahead in a way that ensures financial resources are targeted to the Council’s highest priorities.

2.8 However, this strategy comes with a strong health warning as it is not possible to forecast with absolute certainty how the changes in local government funding will pan out, especially given the political turmoil caused by Brexit and strong speculation about a snap general election being called this year, all of which could impact on the next Local Government Finance Bill.

2.9 The financial forecasts that follow are based on a credible analysis of the potential options, but the potential outcomes are inherently uncertain without answers to four key questions:

(a) Will the Government mitigate the effects of a reset in the Business Rates Retention Scheme as it moves from a 50% to 75% retention basis in 2021/22?

(b) What funding settlement will local government get in 2020/21 and, more importantly, after the end of the current one year settlement?

(c) Will further changes be implemented to the New Homes Bonus?

(d) How will the Government implement the Fair Funding Review?

2.10 The MTFS forecasts will be revised at least annually to reflect the most up to date issues, priorities and pressures faced by the Council. Further information on any aspect of the Council's finances can be obtained from the Council's website.

3 Financial Management Principles

"We are an ambitious, innovative and optimistic Council. Operating within an environment in which there is an ever increasing demand on our services within tough financial conditions, we have sought to develop and embed our "investing philosophy" at the heart of how we do business as an organisation. Investing is about more than just money; it is about devoting our energy, skills and resources to achieving the best results for our residents and communities" – "Growing Our Potential" the Corporate Plan 2019-23.

3.1 The Council has a duty to the public for the responsible use of their money. The Council will at all times conduct its financial affairs in a prudent, responsible manner, but in a way that encourages innovation, achieves improvement and facilitates partnership.

3.2 The following specific principles underpin the Council's financial management arrangements:

(i) The Council will conduct its financial management with integrity, probity and in accordance with the standards and expectations of a publicly funded body.

(ii) The Council will ensure that budgets are aligned to the Corporate Plan and based on realistic estimates.

(iii) The Council will work with partners in the public, private and voluntary sectors to maximise funding available to deliver strategic priorities.

(iv) The Council will base its decision making upon complete, reliable and timely financial information, and a full evaluation of all the financial and risk implications.

(v) The Council will ensure that ongoing funding is available before recruiting new staff and will make use of temporary appointments where this will meet business needs.

(vi) The Council will secure value for money and have regard to environmental considerations in the procurement of supplies and services and will improve the efficiency and effectiveness of its procurement process. To encourage better procurement practice there will be no inflationary increases in budgets for supplies and services (except when there is a contractual obligation to apply indexation).

(vii) The Council will maximise its income and will increase its fees and charges by at least the rate of inflation except where strategic aims, legal requirements, contractual obligations or market forces would render this inappropriate.

(viii) The Council will hold its managers accountable for remaining within their budgets, but will empower managers to take the business decisions necessary to do so.

(ix) Before committing to additional expenditure, the Council will ensure that additional funding, improved income and/or savings are identified to meet the extra costs.

(x) The Council will maintain balances and reserves to enable the Council to respond effectively to unexpected events and opportunities, and sufficient to meet all known future liabilities.

(xi) The Council will identify savings to support budgetary pressures and not use its general balances; however, use of earmarked reserves may be made to fund specific or one-off items where appropriate.

(xii) The Council will ensure that its published financial information is reliable and understandable.

4 Budget Strategy

Financial Strategy Aims

4.1 The Council's financial aims for the period covering the next three years are set out below. These aims are described in detail in this report and form the overarching aims for each budget setting year within the financial strategy period.

- To maintain a low Council Tax whilst delivering high quality frontline services.

- To ensure that the efficiency culture remains embedded within the Council, systematically challenging and securing Value for Money.

- To ensure that the Council's resources continue to be focussed on meeting the Council's Vision for Test Valley and achieving its aims and priorities.

- To ensure that the Council's infrastructure is fit for purpose and that new capital needs are identified and met.

- To ensure that the Council's core ongoing financial position remains stable and continues to support the Council's key aims.

- To continue to seek out new investment opportunities through Project Enterprise, making better use of cash resources to enhance revenue returns.

Budgetary Assumptions

4.2 The budget over the duration of this Strategy is based on the following assumptions:

Revenue

(a) Continued Government support in relation to the funding of negative Revenue Support Grant (RSG) in 2020/21.

(b) A review of the Council Tax Support Scheme in 2019/20, with a view to implement changes to the scheme in 2020/21, subject to full public consultation.

(c) The Test Valley element of Council Tax being increased annually by £5 in each of the next three years.

(d) The Andover Levy being pegged to the movements in Council Tax over the medium term.

(e) A general zero inflation allowance for all expenditure budgets except for contractual obligations and a possible staff pay increase.

(f) The minimum level of working reserves is maintained at £2m over the financial strategy period.

(g) The Council continues to make cashable efficiencies every year.

(h) No growth bids will be entertained until the strategy is reviewed in July 2020 – i.e. all growth pressures (except the items detailed in Annex 6) will be managed by Heads of Service within existing budgets or met from earmarked reserves where this is appropriate.

(i) No in-year supplementary estimates will be approved by the Cabinet, although a small contingency provision will be available to meet exceptional or extraordinary items of expenditure.

(j) A car parking review is being undertaken separately, the outcomes of which will be considered by Cabinet and built into the budget forecasts at a later date.

(k) All other income will be maximised by thorough fees and charges' reviews. These are expected to be increased by a minimum of inflation, or such increase as the individual markets can bear except where strategic aims, legal requirements, contractual obligations or market forces would render this inappropriate.

(l) New Homes Bonus to decrease over the next three years from 2020/21 to 2022/23. This element of financing to be used for specific purposes as follows:

  - Topping up the Community Revenue Fund as necessary
  - Annual contribution to the Community Asset Fund
  - Capital financing of assets with a community benefit e.g. playground improvements

- Offset to the expected continuing reductions in Government financial support

More details of this budget assumption are set out in paragraph 4.11.

Capital

4.3 The Council will maximise the utilisation of, and rate of return on, the assets it holds on its balance sheet.

4.4 All capital expenditure will be funded in accordance with the principles contained in the Prudential Code for Local Authority Capital Finance. All decisions on capital expenditure will ensure that investment is prudent, sustainable and affordable, and that the full implications of all capital expenditure decisions are taken into account in the Council's Revenue Budget.

Review of Reserves

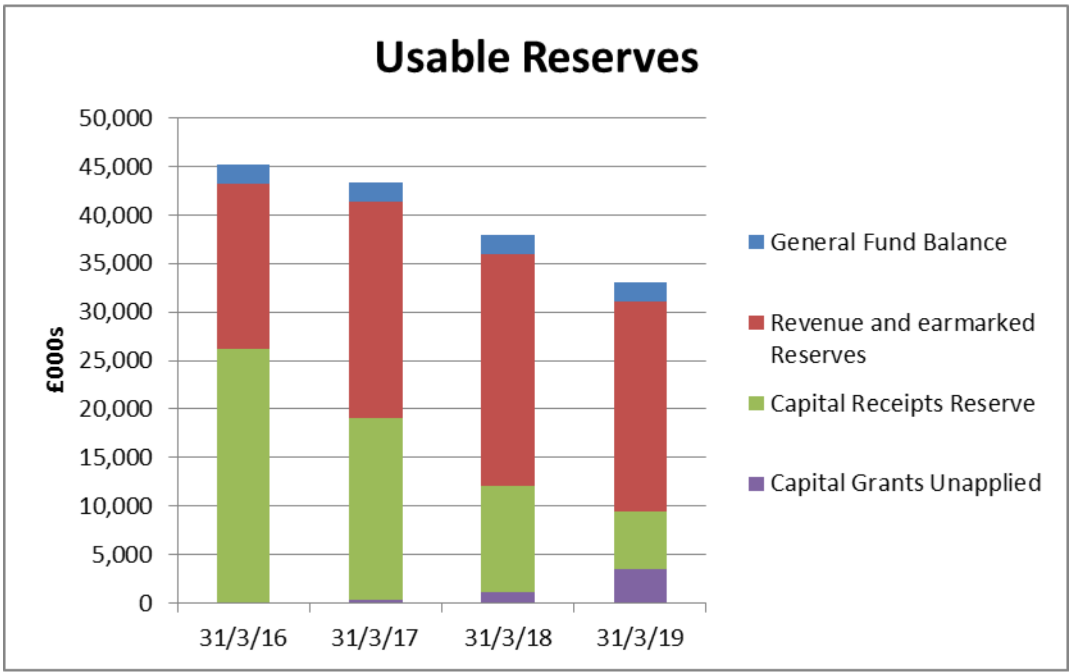
4.5 Reserves are held for a variety of different reasons. Some relate to known and relatively certain future costs such as planned building maintenance, vehicle and IT replacement. Others concern possible, though less certain, liabilities such as unexpected additional costs, or a sudden drop in income from fees and charges. This is where one moves into questions of judgment and prudence.

4.6 Reserves are a hedge against risk. Demand for public services is increasing at the same time that the Government is putting a squeeze on public expenditure. Though predictable in general terms, these trends are difficult to quantify and forecast precisely. Reserves provide a fall-back if there is a gap between the assumptions made in the budget and the trends which actually emerge.

4.7 The Corporate Challenge process has been very successful over the past nine years in challenging all aspects of the Council's spending, but as the Council approaches the next budget round for 2020/21, opportunities to find further savings and efficiencies are becoming harder to identify. In previous years, the Council has managed to balance the budget and protect frontline services through a mixture of savings, efficiencies, shared services, additional income and taking only a limited amount from reserves.

4.8 It is inevitable that if councillors wish to continue to protect services and meet their ambitions set out in the Corporate Plan, they will need to draw down a larger element of reserves than in previous years. In doing so, they will need to exercise great care, including working through medium and long term consequences.

4.9 The nature of most local services is that they require recurring funding to meet staff and running costs year after year. Reserves are a one-off, finite source of funding. They can cover a shortfall in recurring funding for a specific period but, after they have been exhausted, the underlying shortfall will still be there. To solve the problem, services will need to be adjusted to a level which is affordable within the envelope of funding available.



<u>Usable Reserves as at 31/3/19</u>

	31/3/16 £000s	31/3/17 £000s	31/3/18 £000s	31/3/19 £000s
Usable Reserves				
General Fund Balance	2,000	2,000	2,000	2,000
Revenue and earmarked Reserves	17,134	22,352	23,813	21,556
Capital Receipts Reserve	26,132	18,658	10,974	6,022
Capital Grants Unapplied	0	377	1,163	3,464
Total Usable Reserves	45,266	43,387	37,950	33,042

4.10 As shown in the graph and table above, the Council's usable reserves have been steadily declining over the last four years mainly as a result of property investments through the Project Enterprise programme.

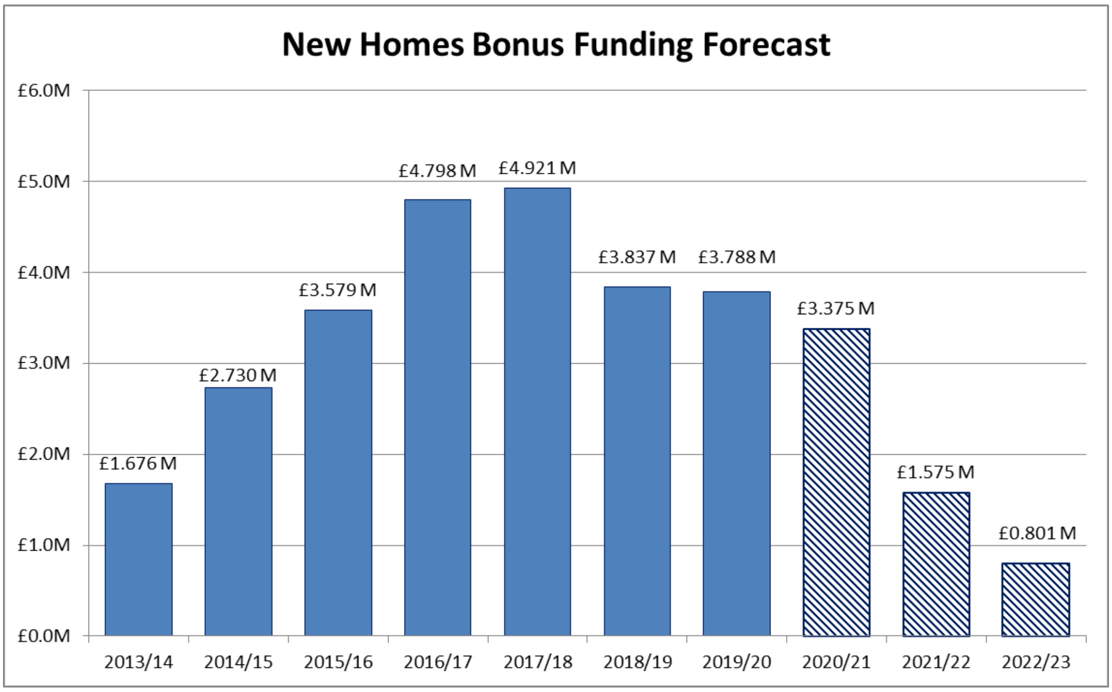
4.11 Usable reserves include the unallocated General Fund Balance, Earmarked Revenue Reserves, Capital Receipts Reserve and the Capital Grants Unapplied Reserve. These are cash-backed reserves that the Council can apply to future expenditure subject to statutory conditions (e.g. the Capital Receipts and Capital Grants Reserves can only be used to finance capital expenditure).

4.11.1 The ***General Fund Balance*** represents a working balance to help cushion the impact of uneven cash-flows and minimise unnecessary temporary borrowing. It is reviewed annually by the Head of Finance and, based on the forecast cash-flows identified in the Council's Medium Term Financial Strategy, councillors are recommended to retain a prudent minimum balance in the General Fund. Currently, this is £2M.

4.11.2 ***Earmarked Reserves*** are a means of building up funds to meet known or predicted liabilities. The Council currently has twenty-four earmarked reserves totalling £21.6M. These are shown in more detail on page 59 of the Council's Statement of Accounts.

4.11.3 One of the largest earmarked reserves the Council carries in its balance sheet is the ***New Homes Bonus Reserve***. The New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use. The New Homes Bonus is currently paid each year for 4 years. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.

4.11.4 The Council has been very successful in attracting New Homes Bonus. Actual and forecast amounts received and due, amount to nearly £32.3M in the twelve year period up to 2022/23. So far £21.3M has been committed from the NHB Reserve. With a further £1.2M being recommended to be drawn from the reserve over the medium term, this will leave a projected balance of £9.8M available by 31st March 2023. Details of actual and forecast receipts are shown below:



4.11.5 ***Capital receipts*** from the disposal of assets are treated in accordance with the provisions of the Local Government Act 2003. The Capital Receipts Reserve can only be used to fund capital expenditure, to repay debt, or to fund credit arrangements subject to the de minimis level set out in the relevant regulations (currently £10,000). A large proportion of the cash held in this reserve came from the Large Scale Voluntary Transfer of Council housing stock on 27th March, 2000 and is being used to part-finance the Council's Capital Investment Programme including investment property purchases through the Project Enterprise initiative.

4.11.6 The ***Capital Grants Unapplied Reserve*** holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require payment of the monies, but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied.

4.11.7 The Head of Finance has carried out a detailed review of the Council's usable reserves and looking at current levels of balances, he considers that they will remain adequate for meeting the Council's needs over the medium term.

5 Financial Context

Government Funding

5.1 The Government's Comprehensive Spending Review (CSR) 2010 indicated that, over a four year period, funding would be reduced by 28% leading up to 2014/15. In fact, reductions were even more extreme than expected for most district councils including ours. In 2010/11, Government support through the Settlement Funding Assessment (SFA) totalled £7.1M. By 2014/15, SFA reduced to £4.6M, a reduction of £2.5M or 36%. Taking into account inflation, the reduction in Government support in real terms over four years was over 44%. By 2020/21, SFA is projected to be about a third of the amount received in 2010/11, a reduction of £4.7M.

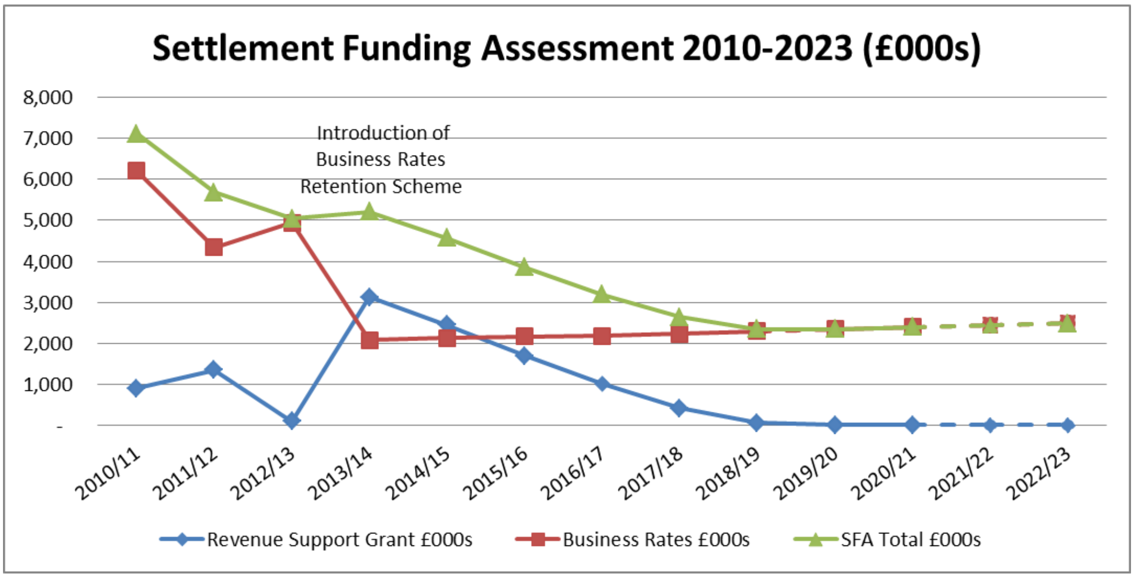
5.2 The Council's forecast of Government support for the next three years is shown below:

Actual and Forecast Local Government Finance Settlement

	Revenue Support Grant £000s	*Business Rates £000s*	*SFA Total £000s*	*Change £000s*	*Change %*
2010/11	902	6,208	**7,110**		
2011/12	1,341	4,340	**5,681**	-1,429	-20.1%
2012/13	96	4,946	**5,042**	-639	-11.2%
2013/14	3,127	2,080	**5,207**	165	3.3%
2014/15	2,444	2,121	**4,565**	-642	-12.3%
2015/16	1,696	2,161	**3,857**	-708	-15.5%
2016/17	1,012	2,179	**3,191**	-666	-17.3%
2017/18	417	2,224	**2,641**	-550	-17.2%
2018/19	56	2,291	**2,347**	-294	-11.1%
2019/20	-	2,343	**2,343**	-4	-0.2%
2020/21	-	2,395	**2,395**	52	2.2%
2021/22	-	2,439	**2,439**	44	1.8%
2022/23	-	2,486	**2,486**	47	1.9%

5.3 According to LGA figures, 168 councils – almost half of all councils made up of districts, counties, unitaries and London boroughs – will lose all RSG by 2020/21.

5.4 The budget forecast in this report has been prepared on the assumption that the Government will continue to fund the RSG adjustment (sometimes called "negative RSG") as it did last year, but there is no guarantee that it will do so. If it does, then the Settlement Funding Assessment should level out from 2020/21 onwards, following years of drastic reductions in government support, as shown in the graph below:



<u>Business Rates</u>

5.5 The Business Rates Retention Scheme allows Councils to retain a proportion of any growth in business rates income over the baseline shown in the table and graph above. The forecasting of business rates income is especially difficult due to two factors:

(a) The impact of appeals arising from the national business rate revaluation in 2017/18, and

(b) The potential for further reform of the business rate system with Local Government retaining 75% of business rates income from 1st April 2021 (subject to, as yet unknown, tariffs).

5.6 The budget forecasts in annex 3 are based on the current business rates system. This shows surpluses (i.e. business rates growth continuing until 2021/22 when a full reset of the system is expected with a consequential loss of all accumulated growth at that point (i.e. £2.3M). An update to these forecasts will be undertaken later in the year to assess how much of each year's surplus can safely be used to support the revenue budget.

<u>Council Tax</u>

5.7 With the continuing decline in Government support, Council Tax is now one of the Council's main sources of income. Consequently, there is an ever increasing strategic importance to the annual debate about whether to increase Council Tax and, if so, by how much.

5.8 The financial strategy aims to keep Council Tax at a low level taking into account spending priorities and Central Government funding. This should be set in the context of Central Government's expectations of local authorities and already very low levels of Council Tax charged in the borough. The Council Tax for Test Valley Borough Council was frozen at £121.41 in 2011/12 and again in 2012/13. In 2013/14, the Government recognised the problems created by being a low tax authority and made a special dispensation to allow those councils in the bottom quartile to put up Council Tax by £5. The Council took advantage of this offer and approved an increase of 4.1% to £126.41. The Council Tax was frozen again in 2014/15 and in 2015/16, and then increased by £5 for 2016/17, 2017/18 and again in 2018/19. The current level of Council Tax at £141.41 is still very low - the 27th lowest out of the 192 district councils in England, and the 4th lowest in Hampshire. It is also £48, or 25%, lower than the average Council Tax payable in the rest of England.

5.9 The MTFS forecast assumes that Council Tax will be increased by £5 in 2020/21. The Government has not yet announced its council tax referendum threshold for 2020/21 and there is some doubt about whether the threshold will be set at £5 or 2% (i.e. £2.82) - as outlined in the MHCLG's recent consultation paper: October 2019. There may therefore be a need to make an adjustment to the budget forecasts following the Government issuing the referendum principles which are usually published in January each year.

Core Spending Power

5.10 As part of the Local Government Finance Settlement, the Government publishes what it calls "Core Spending Power", i.e. the level of revenue likely to be available to each individual local authority. For this Council it comprises the aggregate of:

(a) The Settlement Funding Assessment amounts;

(b) The council tax requirement (excluding parish precepts);

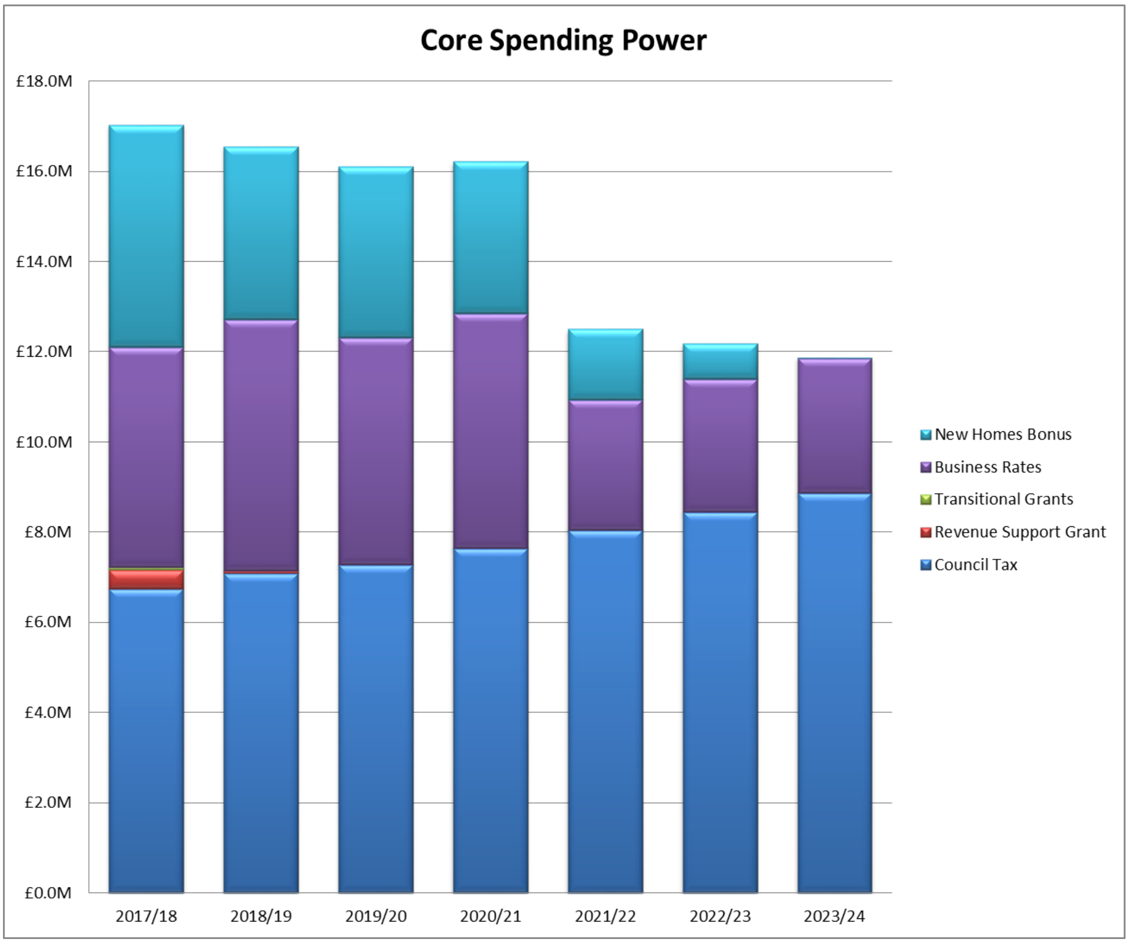
(c) The New Homes Bonus and

(d) Any Transitional Grants

5.11 As set out in previous paragraphs, the MTFS has been based on assumptions that as part of the Government's Fair Funding Review during 2020, there will be a full reset of the Business Rates Retention Scheme on 1st April 2021 and a phasing out of the New Homes Bonus Scheme, leading to a severe reduction in the Council's Core Spending Power in 2021/22.

5.12 The table and graph below show the financial impact of expected changes over the medium term:

Test Valley Borough Council	Core Spending Power Forecast						
	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Business Rates	4.890	5.560	5.042	5.199	2.890	2.947	3.003
Revenue Support Grant	0.417	0.056	-	-	-	-	-
New Homes Bonus	4.921	3.837	3.788	3.375	1.575	0.801	0.000
Transitional Grants	0.054	-	-	-	-	-	-
Council Tax	6.747	7.096	7.271	7.647	8.039	8.441	8.858
Total Resources	**17.030**	**16.549**	**16.102**	**16.221**	**12.504**	**12.188**	**11.861**
Annual % change	1%	-3%	-3%	1%	-23%	-3%	-3%
Proportion raised from Council Tax %	40%	43%	45%	47%	64%	69%	75%



5.13 A 23% reduction in Core Spending Power in 2021/22 will be difficult to manage and it is not clear whether the Government will put in place any damping arrangements to help councils (especially those like Test Valley Borough Council) that have seen continued business rates growth and increasing NHB grants over the last five years, to make the transition to a new funding base from 1st April 2021. Unfortunately, it is unlikely that any details of forward funding will be available until the Fair Funding Review Consultation is published in the summer of 2020.

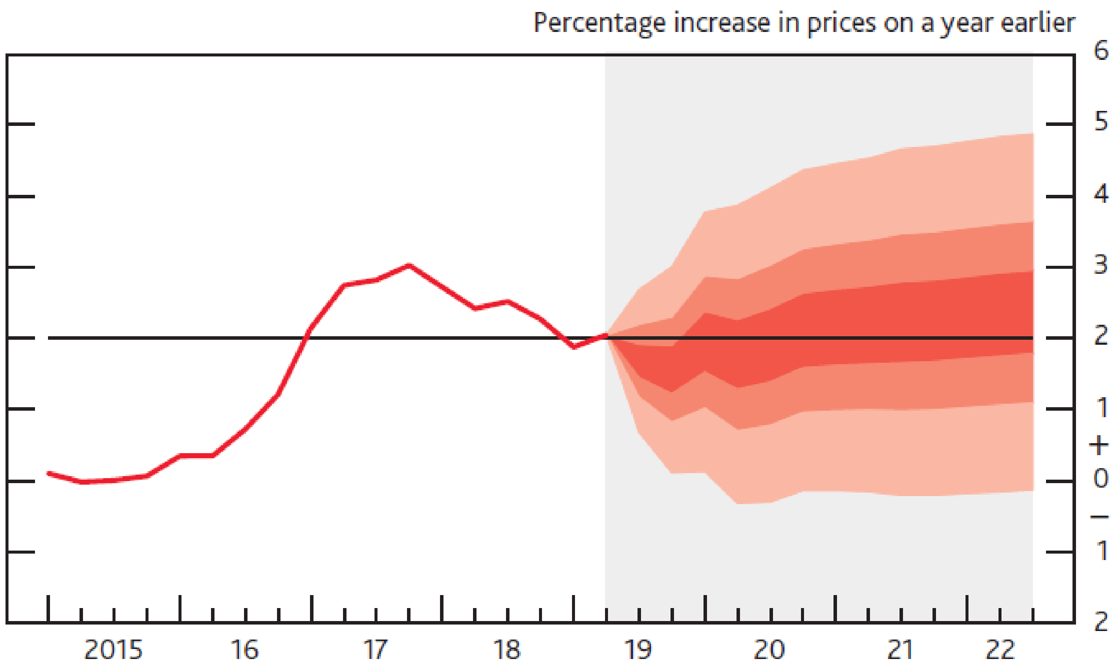
6 Key Budget Pressures and Influences

<u>Pay and prices</u>

6.1 The largest source of cost pressure comes from inflation. In order to maintain price stability, the Government has set the Bank of England's Monetary Policy Committee (MPC) a target for the annual inflation rate of the Consumer Prices Index (CPI) of 2%. CPI inflation is projected to fall temporarily below the MPC's 2% target in the short term as energy prices decline. Conditioned on a smooth withdrawal of the UK from the EU, Brexit-related uncertainties are assumed to subside over the forecast period. Together with a boost from looser monetary conditions, the decline in uncertainties leads to a recovery in demand growth to robust rates. As a result, excess demand and domestic inflationary pressures build. CPI inflation picks up to materially above the MPC's 2% target by the end of the forecast period.

6.2 The MPC's projections are affected by an inconsistency between the asset prices on which they are conditioned — which reflect a higher perceived probability of a no-deal Brexit among financial market participants — and the smooth Brexit assumption underlying the central forecasts. In the event of a Brexit deal, sterling would be likely to appreciate and market interest rates and UK-focused equity prices to rise.

6.3 Pay and price inflation allowances have been built into the budget forecasts equating to approximately £600,000 p.a. This is in line with the central forecasts produced in the Bank of England Inflation report (August 2019). The fan chart below shows a central forecast around 1.5-3%, but given the uncertainties over the next three years the forecast range is between 0-5%.



Revenue impact of the Capital Programme

6.4 The capital programme is currently financed through a combination of capital receipts supplemented by specific grants and contributions. The balance on the Capital Receipts Reserve at 31 March 2019 was £6.0M. It is expected that the Capital Receipts Reserve will be fully committed by 2021/22 and the Council will be using a mixture of internal borrowing and borrowing from external sources such as the Public Works Loan Board (PWLB) to finance further capital expenditure. This practice is allowed in accounting regulations and is in line with the limits set in the Council's Treasury Management Strategy Statement (approved by Council, February 2019).

6.5 Further investments are expected through Project Enterprise that may also require the use of prudential borrowing. Each £1M of borrowing is estimated to cost in the region of £81,000 p.a., although the cost is dependent on the prevailing rate of interest, the type of loan and the term of the loan when the asset is acquired. (Estimates based on a 2.57% interest rate annuity loan over 15 years).

Interest Rates

6.6 The Council's Treasury Adviser, Link Asset Services, has provided the following forecasts of interest rates:

	End Q3 2018	End Q4 2018	End Q1 2019	End Q2 2019	End Q3 2019	End Q4 2019	End Q1 2020	End Q2 2020	End Q3 2020
Bank Rate	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%

6.7 The above forecasts include the increase in margin over gilt yields of 1% introduced by the PWLB on 9th October 2019. They have been based on an assumption that there is an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

6.8 It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 19th September, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That is shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

6.9 The MTFS forecast is based on base rate levels as shown in the table in paragraph 6.6 above. Further work is currently being carried out to assess the likely cashflows expected in 2020/21 and beyond. A further update will be provided to Cabinet in January and February using the latest market information.

Welfare Reform

6.10 As mentioned in paragraph 2.4, Universal Credit (UC) Full Service has now been live in the Test Valley area for just over a year; however, full migration to the new system is not expected to be completed until 2023. The Revenues Service was restructured in May 2019 to reflect the changing caseload that has already been experienced and to prepare for future changes as the UC transition continues. The restructure has released some savings and these are shown in Annex 4. These savings are in addition to previous efficiencies made by the Revenues Service over a number of years that have made a significant contribution to balancing the Council's budget. The Head of Revenues will monitor the impact of the restructure and the ongoing roll-out of Welfare Reform.

6.11 It is expected that there will be further cuts to the Housing Benefit and Council Tax Support Administration grants over the coming years as the UC roll-out continues. These reductions may not coincide with the actual change in caseload and it is possible that there will be a budget pressure if the grant reduces at a faster rate than the costs of administering these schemes.

Hampshire County Council's "Transformation to" Savings Proposals

6.12 Hampshire County Council's (HCC's) plans to transform its budget over the medium term include proposals to reduce its overall revenue budget by £80M (Transformation to 2021). Work continues to assess the impact of these budget reductions and what they might mean in practice for Test Valley residents. It is difficult to assess the potential financial implications until further details of the proposals become available, but reductions of this magnitude will undoubtedly have a knock-on effect to this Council's budgets that will have to be carefully monitored and managed. In anticipation of changes to the recycling arrangements across the county announced by HCC, a provisional £539,000 budgetary pressure has been included in annex 6 to reflect the expected reduction in recycling related income from 2021/22 onwards.

7 Overall Revenue Budget Summary

7.1 The Revenue Forecasts for 2020/21 to 2022/23 have been drawn up at a macro level. They do not constitute detailed budgets, which will continue to be prepared on an annual basis within the normal timescales. However, the costing of specific issues and evaluation of proposed developments has informed the forecast.

7.2 The forecast is based on a middle case scenario using the assumptions shown in annex 2. It should be recognised that there will not be sufficient resources to meet all the service delivery ambitions and priorities of the Council without the generation of significant savings or additional income. This financial strategy for the three year period to 2022/23 should ensure that the financial resources of the Council continue to be aligned to the delivery of the Council's service and organisational priorities.

7.3 Achieving the improvements that the Council has set itself will require difficult policy decisions and resource choices to be made.

7.4 The budget principles and guidelines outlined in this strategy will allow for a phased use of reserves over the medium term to allow time to adjust to a standstill budget and an ever decreasing amount of external support. The corporate challenge process has identified significant savings and additional income of £490,000, and the proposed use of retained Business Rate growth will help the budgetary position in the short-term. The forecasts show a balanced budget for 2020/21, but budget gaps in both 2021/22 and 2022/23. The savings and additional income options being put forward for consideration are shown in annexes 4 and 5.

7.5 Current projections indicate the following financial position:

Revenue Budget Summary Statement 2020/21 - 2022/23

	Para. Ref.	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s
Base budget		**11,901.8**	**11,901.8**	**11,554.3**	**10,929.6**
Base changes			(1,342.8)	330.1	(351.3)
Annual Inflation	6.3		600.0	600.0	600.0
Additional Income:					
Renewable energy NDR growth			(9.2)	(8.0)	(9.0)
Increase in New Homes Bonus			(807.0)	0.0	0.0
Corporate challenge income	Annex 5		(394.0)	0.0	0.0
Increased Costs:					
Reduction in New Homes Bonus	4.11.4		0.0	1,799.5	774.4
Borrowing costs			65.2	(0.9)	(0.8)
Unavoidable revenue pressures	Annex 6		1,000.0	(461.0)	0.0
Reduced Costs:					
Business Rates Levy			0.0	(1,320.0)	0.0
Pension Savings	Annex 4		(744.6)	0.0	0.0
Corporate challenge savings	Annex 4		(96.3)	0.0	0.0
Reserves:					
Transfer to/(from) reserves			1,381.2	(1,564.4)	(774.4)
General Fund Requirements		**11,901.8**	**11,554.3**	**10,929.6**	**11,168.5**
Financed by:					
Revenue Support Grant	5.2	0.0	0.0	0.0	0.0
Locally retained Business Rates Baseline	5.2	(2,343.1)	(2,394.6)	(2,439.0)	(2,486.0)
Locally retained Business Rates Growth	5.6	(2,233.3)	(2,275.4)	0.0	0.0
Share of Collection Fund Balance		(54.3)	756.6	0.0	0.0
Council Tax	5.12	(6,924.3)	(7,294.1)	(7,679.8)	(8,075.8)
Special Expenses Levy	4.2 (d)	(346.8)	(346.8)	(346.8)	(346.8)
Total Financing		**(11,901.8)**	**(11,554.3)**	**(10,465.6)**	**(10,908.6)**
Budget Gap		**0.0**	**0.0**	**464.0**	**259.9**

7.6 Details of further efficiency and other savings are currently being gathered together for Members' consideration in terms of the funding gap identified above and these will be presented to Cabinet in January 2020. The Cabinet will then decide on which options should be taken forward as recommendations to full Council as part of the budget setting process in February 2020.

7.7 The Council has a number of earmarked reserves set aside specifically to support the budget over the medium term:

- Budget Equalisation Reserve £682,000
- Income Equalisation Reserve £300,000
- Investment Income Equalisation Reserve £250,000

7.8 Whilst this leaves an uncommitted balance of over £1.2M available to ease the pressure of balancing the budget during the next three years, it should be noted that this is not a sustainable solution to bridging the budget gap, as these reserves can only be used on a one-off basis.

7.9 The Council also has a Collection Fund Equalisation Reserve of £3.6M available to smooth the adverse effects of a Business Rates Retention Scheme reset in 2021. Current levels of forecast growth for 2020/21 are £2.275M, so a hard reset, without any damping or transitional arrangements, could create a sudden financial shock to the Council. This Reserve would mitigate the impact and provide financial cover for 19 months allowing time to manage the reduction in external support.

8 Achieving the Medium Term Financial Strategy

8.1 It is anticipated that the required level of savings will be achieved through a combination of the following:

- Corporate Challenge process
- Procurement savings
- Improving value for money
- Service transformation
- Savings from partnership and shared services
- Generating additional income through use of fees and charges
- Generating additional income through external funding sources
- Generating additional income through Project Enterprise

8.2 However, it is inevitable that savings of this order can only be achieved by making difficult choices about the best use of limited and reducing resources and the relative priority of services offered to Council Taxpayers and stakeholders.

8.3 Annex 1 outlines the proposed action plan to achieve a balanced budget over the next three years.

9 Capital Strategy

9.1 The Capital Strategy will be reviewed and updated in February 2020, but is unlikely to change significantly. The strategy sets out the following key principles:

(a) Linking together capital requirements related to corporate priorities for new projects and the ongoing capital need to maintain / repair existing assets through the Asset Management Plan

(b) Managing the approved Capital Programme in an affordable, financially prudent and sustainable way

(c) How new bids are introduced to the Capital Programme

(d) Monitoring progress against approved budgets

(e) Financing capital expenditure including borrowing requirements and Minimum Revenue Provision (MRP)

(f) Purchase of commercial properties and the resources required to ensure due diligence

(g) Knowledge and skills

9.2 Full details of the existing strategy can be found in annex 7 to last year's report to Cabinet on 10th October 2018.

10 Corporate Objectives and Priorities

10.1 Using its investing approach, the Council's priorities are focussed on **growing the potential of**:

- **Town Centres** - to adapt and be attractive, vibrant, and prosperous places

- **Communities** - to be empowered, connected and able to build upon their strengths

- **People** - to be able to live well and fulfil their aspirations

- **The Local Environment** - for current and future generations

10.2 The Council will ensure that budgets are directed towards these key priorities. The mechanism for achieving this is the Council's Strategic Planning Framework (corporate clockwork), which includes a timetable for developing budgets and service plans to ensure that budgets are aligned to these priorities.

11 Consultations/Communications

11.1 The information contained in this report will form the basis for future discussions about the 2020/21 budget. It will go forward to Overview & Scrutiny Committee for comments.

11.2 The budget consultation with business will take place in the next three months. The final form of the consultation is not yet decided.

11.3 Once the provisional Local Government Finance Settlement has been received in late December it will be necessary to update the current figures and to take account of the comments made by the Overview and Scrutiny Committee and the views of businesses. It is planned to update the Cabinet with these figures and comments on 15th January 2020.

12 Risk Management

12.1 A risk assessment has been completed in accordance with the Council's Risk management process and has identified the significant (Red or Amber) risks shown below:

Risk	Likelihood	Impact	Management of Risk
Future resources less than assumed - **RED**	Significant **C**	Critical **II**	Revenue: Assess impact of Local Government Finance Settlement, the Fair Funding Review and the rest of the BRRS at the earliest opportunity. Monitor the impact of the localisation of business rates and of support for council tax and revise forecast as necessary. Capital: Schemes and projects kept on reserve list until resources are confirmed. Delay design stage approval of schemes in capital programme, if necessary. Monitor the amount of future usable capital receipts.
Savings anticipated from reviews are not delivered. - **AMBER**	Significant **C**	Significant **III**	Continue with corporate challenge and Service reviews. Closely monitor progress of budget / efficiency savings through monthly budget monitoring. Use of the Budget Equalisation Reserve if necessary.
Investment Income targets are not achieved - **AMBER**	Low **D**	Significant **III**	Review Treasury Management Strategy at least monthly. Quarterly meetings with Treasury advisors and Finance Portfolio Holder to look for low risk opportunities for investment. Use of the Investment Equalisation Reserve if necessary.
Legislative changes not anticipated. **- AMBER**	Significant **C**	Significant **III**	Keep up to date with Government policy and consultations, especially in relation to Universal Credit and the Fair Funding Review
Local data changes vary from those assumed. **- AMBER**	Significant **C**	Significant **III**	Review of assumptions with support from other bodies.
Pay awards or inflation vary from those assumed. **- AMBER**	Significant **C**	Significant **III**	These factors have a large influence on the revenue budgets. Pay awards to be agreed at an affordable level. Inflationary factors to be reviewed regularly.

Future spending requirements are under-estimated. **- AMBER**	Significant **C**	Significant **III**	Review Service Plans and spending projections. Closely monitor progress through budget/performance monitoring.
Revenue implications of capital decisions are not taken into account. **- AMBER**	Low **D**	Significant **III**	Capital approval processes to be reviewed to ensure all revenue consequences continue to be identified.
Income targets are not achieved. **- AMBER**	Significant **C**	Significant **III**	Monthly monitoring of budgets and projections. Use of the Income Equalisation Reserve if necessary.
Staffing budgets are not sufficiently controlled. **- AMBER**	Low **D**	Critical **II**	Rigorous process is already in place for filling posts and managing vacancy targets.
Investment in priority areas does not lead to desired outcomes being achieved. **– AMBER**	Significant **C**	Significant **III**	Robust performance management framework incorporating quarterly monitoring reports.
Standards of service fall, particularly in non-priority areas. **- AMBER**	Significant **C**	Significant **III**	Robust performance management framework incorporating quarterly performance monitoring reports.
Increased demand for homelessness assessments and temporary accommodation - **AMBER**	Significant **C**	Significant **III**	Review the impact of Universal Credit rollout and the Homelessness Reduction Act additional responsibilities.
Adverse impact on service provision due to HCC's "Transformation to" savings proposals - **AMBER**	Significant **C**	Significant **III**	As further details of the proposals become available, assess the potential impact on service provision and take action to limit any financial implications.

13 Resource Implications

13.1 Resource implications are contained within the Strategy itself.

14 Legal Implications

14.1 The Council is required to set a robust and balanced budget under the Local Government Act 2003. This report is the first step towards achieving this aim for the 2020/21 budget.

15 Equality Issues

15.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination and/or low level or minor negative impact have been identified, therefore a full EQIA has not been carried out.

16 Other Issues

16.1 None.

17 Conclusion and reasons for recommendation

17.1 This MTFS takes account of all known financial implications and makes various assumptions in projecting the budget forward for the next three years. However, the Council is still in the position of having no visibility of its financial prospects beyond the 2020/21 year, which clearly makes any accurate financial planning difficult to achieve.

17.2 The budget position outlined in the Medium Term Financial Forecast is not inconsistent with the position most other Local Authorities will face. However, significant savings will need to be found over the coming years.

17.3 These papers will now go forward to Overview and Scrutiny Committee for consideration. The next budget update will be in January, 2020.

17.4 The MTFS is recommended for approval for the following reasons:

- to ensure that the Council has a strategic approach to the management of its finances, and
- to enable available resources to be allocated to services in line with Council priorities over the medium term.

<table>
<tr><td colspan="4"><u>Background Papers (Local Government Act 1972 Section 100D)</u>
None</td></tr>
<tr><td colspan="4"><u>Confidentiality</u>
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.</td></tr>
<tr><td>No of Annexes:</td><td>6</td><td>File Ref:</td><td>N/A</td></tr>
<tr><td colspan="4">(Portfolio: Finance) Councillor M Flood</td></tr>
<tr><td>Officer:</td><td>Will Fullbrook</td><td>Ext:</td><td>8201</td></tr>
<tr><td>Report to:</td><td>Cabinet</td><td>Date:</td><td>6 November, 2019</td></tr>
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