Medium Term Financial Strategy 2020/21 to 2023/24

Contents

Section 1
Introduction

Section 2
Horizon Scanning

Section 3
The Financial Challenge

Section 4
Conclusion

Section 1: introduction

1.1 Aims and purpose of the Medium Term Financial Strategy

The purpose of the Medium Term Financial Strategy (MTFS) is to provide the strategic framework and a forward looking approach to achieve long term sustainability. It is central to the delivery of priority outcomes in the Council Plan in an affordable and sustainable way over a four year period. It aids robust and methodical planning as it forecasts the council's financial position, taking into account known pressures, major issues affecting the council's finances, including international, national, sub regional and the borough's economic influences as well as local priorities and factors.

It helps the council to respond, in a considered manner, to pressures and changes as a result of many internal and external influences. This is particularly important during a period when the council will face unprecedented changes and challenges. The MTFS recognises the key role that financial resources play in the future delivery of outcomes and in enabling the effective planning, management and delivery of services that contribute to the outcomes in the Council Plan. The strategy concentrates on the principles that will provide a strong direction for the medium term.

An overarching MTFS is not only good practice, but is required to provide the strategic financial framework for the authority at a time of considerable pressure and change, be this delivering key priorities and ongoing efficiency gains, closer budget scrutiny, the management of financial pressures or political change.

The key overriding aim of the MTFS is:

> *to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's key strategic outcomes, priorities and sustainable services.*

The key objectives of the MTFS are:

- to provide financial parameters within which budget and service planning should take place;
- to ensure the council sets a balanced budget;
- to focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources;
- ensuring services are defined on the basis of a clear alignment between priority and affordability;
- to ensure the council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;
- to plan the level of fees, charges and taxation in line with levels that the council regard as being necessary, acceptable and affordable to meet the council's aims, objectives, policies and priorities whilst meeting the need to reduce the council's reliance on central government funding; and
- to ensure that the council's long term financial health and viability remain sound.

The MTFS sets out the council's strategic approach to the use and management of its financial resources and provides a robust framework within which decisions can be made. It also supports all other council strategies, such as the Capital Strategy, the Asset Management Plan, the Property Investment Strategy and the Treasury Management Strategy. In particular, it acts as the framework linking the council's more detailed service plans, asset management plans and capital plans for the longer term to help ensure that the council's plans are financially achievable.

One of the main objectives of the MTFS is to plan for the delivery of services within an uncertain external environment and to ensure the achievement of value for money. The MTFS sets out a stable and sustainable financial plan over the medium term to allow the council to shape the way the borough grows whilst continuing to provide high-quality services.

By agreeing a four-year MTFS the council is identifying the financial pressures and opportunities that lie ahead at an early stage and is able to make better decisions as there is time to fully consider different options, engage with stakeholders, carry out risk assessments and develop contingency plans to manage future uncertainties.

1.2 Strategic context

There are a number of strategies, policies and plans which impact on the direction of the council and the day-to-day operations therefore impacting on the MTFS. The following diagram puts the MTFS in this strategic context.

1.3 Key strategies and plans

Horizon 2050 and the Council Plan

The Council Plan for 2020 to 2024 will be finalised and presented to Council on 27 February 2020. The Council Plan is a high level, medium-term document that sits alongside the Medium Term Financial Strategy and these two documents set out the council's vision for future years, including how it will deliver key priorities. It links with other key strategies and plans by identifying the priorities that will guide service planning and contribute to the delivery of the Horizon 2050 shared vision for the borough.

The Council Plan priorities for 2020 to 2024 are:

- strengthening communities
- protecting and enhancing our environment
- improving safety
- planning for the future

The Council Plan will be used to set the framework for performance monitoring and service plans across the organisation.

Maintaining and enhancing the borough's natural environment and sustainability are key issues in the borough's Horizon 2050 vision, including reducing waste and improving biodiversity. The Council Plan will lay the foundation for delivery of the vision which was adopted by the council and partners in March 2019. It consists of eight themes developed through extensive consultation and engagement with residents, partners and stakeholders.

The themes are:

The vision is not a strategy or policy but provides a framework and road map to inform policy making, to plan for the future development of the borough and to make Basingstoke and Deane a great place to live.

Local Plan

The Local Plan is a statutory document which all local planning authorities must produce (and review every five years) to guide development in their area. It sets out a positive strategy for meeting the development needs of the borough whilst protecting the local environment. It also sets out clear guidance on what development will and won't be permitted and is used in the determination of planning applications.

The plan covers all types of development, from housing to employment, schools, roads, parks,shops and community facilities. The current adopted Local Plan covers the period 2011 to 2029 but is now being reviewed in line with national planning requirements. The updated plan will cover the period up to at least 2038 and the published timetable outlines an adoption date for the new plan of 2023. As the council's primary planning document, the Local Plan will build upon other council strategies to direct growth and change to appropriate locations and therefore achieve sustainable development to create places people want to live, work and locate their businesses.

Workforce strategy

The overall aim of the council's workforce strategy is to ensure that the council has "the right people, in the right job, with the right skills, and the right time". Within this the focus is on four key priority areas:

Underpinning the workforce strategy is a continued focus on diversity and inclusion with continued engagement with local community representative forums to focus on the accessibility and inclusivity of the council's recruitment and retention practices, as well a programme of activity with local schools and colleges to raise awareness of the council as a potential employer, alongside highlighting the apprenticeship opportunities available at the council.

Apprenticeships are continuing to be developed within the council with an ever increasing variety of apprenticeship opportunities available both for individuals new to the council but also as a means of developing existing staff as part of succession planning and talent management. In addition to focusing on the development of council staff, the workforce strategy also prioritises staff health and wellbeing with an increasing programme of wellbeing activity such as the expansion of our mental health champion network and a calendar of events throughout the year highlighting the support available for staff throughout the council.

The council is developing its workforce structures to be 'Fit for the Future' and has undertaken a high level restructure of the organisation to take effect from April 2020. This forms part of ongoing work to proactively prepare and develop the organisation so that it can continue to deliver well those services highly valued by residents. The digital transformation agenda and smarter ways of working also form part of this ongoing work and will be underpinned by a culture change programme within the council.

A review of pay and conditions is to take place within the MTFS period however the overall key assumptions (section 1.6 and table 1) are confirmed for the whole period to 2023/24. Government policy commitments (increases to the National Living Wage and caps on public sector exit payments) are noted and, when confirmed, will be factored into forecasts.

The council notes that the labour market locally is constrained with very low unemployment. The reduction in the number of EU nationals in the workforce nationally has caused concern to some councils and in certain sectors. The council as a major employer locally intends to be seen as an employer of choice and so pay and terms and conditions should be attractive and competitive to attract and retain staff. A workforce strategy has been developed including a series of measures to support staff development and wellbeing.

The council routinely reports on Gender Pay Gap (as required by the Equality Act 2010) and the diversity of its workforce. A new duty to report on the ethnicity pay gap is likely to be introduced in 2020. Changes to employment rights and the new National Disability Strategy, as announced in the Queen's Speech (December 2019) will be incorporated into council policy and guidance.

Other non-financial strategies

In addition to the Council Plan and Local Plan, there are a number of other key strategies which shape and direct the council's work with customers, communities, partners and internal services, as well as deliver the Council Plan priorities. With the adoption of Horizon 2050, the council is already integrating elements of the future vision into its strategies and plans. Partnership working and pooling assets, stakeholder engagement, a focus on delivery of community priorities and outcomes and future proofing and planning are all common elements of the council's strategic approach.

The top level strategies are:

- **Brighter Futures 2050 –** a vision for children, young people and their families in Basingstoke and Deane. The timescale of this vision is purposefully aligned to the Horizon 2050 vision. Brighter Futures has a number of priorities including healthy living, promoting good mental health and wellbeing, reducing youth related violence and antisocial behaviour, fostering inclusive communities, opportunities for learning, education and employment and supporting those with complex needs. The vision is a multi-agency one, adopted by Basingstoke Area Strategic Partnership (BASP);

- **The Climate Change Strategy to 2020 –** this is due for an update in 2020 and a Climate Change and Low Emissions Strategy will be developed to reflect the climate emergency which is explained further in section 2.3;
- **The Cultural Strategy – '**Arts and Culture at the Heart of our Community, a five-year strategy and 10-year vision for the borough' covers the creative economy, reputation and identity, young people, the contribution of arts and culture to health and wellbeing, an action plan and vision;
- **Cycling Strategy –** this deals with connectivity of cycle routes, safety, encouraging more people to choose to cycle and improved facilities. The strategy is formed around a vision and action plan and is linked to the Transport Strategy;
- **The Economic Growth Strategy 2018 to 2033 and Economic Masterplan –** linked to the Enterprise M3 Strategic Plan, these strategies deliver on local priorities – 'Growing our talent, supporting our entrepreneurs and supporting our sectors'. Skills, broadband and 5G and an "inclusive growth" approach are key issues. The emerging Town Centre Strategy forms part of this work with significant overlaps with the council's Transport Strategy;
- **The Green Infrastructure Strategy 2018 to 2029 –** covers landscape, heritage, sense of place, biodiversity, water resources, trees and woodland, parks and open spaces, health and wellbeing and access and recreation, delivering on Local Plan policies and incorporating governing legislation, standards and land management requirements. This is supported by the Living Landscapes Natural Environment Strategy and is aligned to the Local Plan to 2029;
- **Housing and Homelessness Strategy 2016 to 2020 –** this is currently under review and a full strategy for 2020 to 2024 will be put to Council for approval in March 2020. This encompasses statutory housing duties, homelessness and the Social Inclusion Partnership, initiatives to increase access to owner-occupation, to make the best use of existing housing stock and deliver more affordable housing. This is supported by the Tenancy Strategy and the Private Sector Housing Renewal Strategy; and
- **Transport Strategy –** this has been developed during 2018/2019 and is focussed on six themes including access to and within Basingstoke town centre (and the emerging Town Centre Strategy), creating new developments that are integrated within the existing transport network, improving public transport, developing better walking and cycling corridors, managing journey times and reliability, maintaining strong transport connections and forward planning to meet future needs.

Other financial strategies

Capital Programme and Capital Programme Strategy

The capital programme sets out the capital plans for the next four years, taking account of any capital investment required to deliver outcomes, transformational change and executive priorities. The capital programme covers the same timeframe as the MTFS to ensure all plans are co-ordinated and the focus is on the medium term. The programme is reviewed annually to ensure projects are still in line with outcomes, and that the programme is affordable.

The Capital Programme Strategy details the priorities of the council in terms of capital expenditure and provides a framework for the council's capital plans to be agreed and delivered within.

The Capital Programme Strategy and supporting capital programme are approved each year in February by Council.

Treasury Management Strategy

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Executive Director of Finance and Resources to make decisions on the management of the council's investment of surplus funds.

The council is able to borrow on a long-term basis to finance capital and on a short term basis to manage cash flow fluctuations. The council is also able to invest surplus funds.

The core elements of the 2020/21 Treasury Management Strategy are:

- to constantly review longer term forecasts and to lock into longer term rates through a variety of instruments, as appropriate, during the year, in order to provide a balanced portfolio against interest rate risk;
- to secure the best short-term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio; and
- to invest surplus funds prudently, the council's priorities being:
    - security of invested capital
    - liquidity of invested capital
    - an optimum yield which is commensurate with security and liquidity
    - to approve borrowing limits that provide for financing opportunities
    - to minimise the cost of any temporary borrowing (which may be required for day to day cash flow reasons).

The council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. However it should be noted that a lower rate is an acceptable offset for higher credit and less risk, for example treasury bills or covered bonds.

The council has a minimum credit rating of A- or equivalent. The council's investment are highly diversified through the use of externally managed collective investment funds. The majority of cash used for cash flow purposes is invested in money market funds.

Investment limits are set as part of the strategy to help mitigate and spread risk across a number of financial institutions. The Executive Director of Finance and Resources has the delegated authority to review these in year and they will be updated quarterly, as relevant, in line with advice received from the council's treasury management advisors, Arlingclose Ltd.

The investment rates assumed in the MTFS are included in the section on key assumptions.

The council is also able to make non-treasury investments such as service investments (loans/shares) and commercial property investments. Further details of non-treasury investments can be found in the Investment Strategy (Non-Treasury) 2020/21.

The council's cash resources are forecast to fall from £117M to £100M by 2023/24 as capital receipts, contributions and reserves are used to finance the capital programme (includes the new investment strategies) and revenue reserves are used to support the revenue budget.

Apart from the borrowing from the Enterprise M3 Local Enterprise Partnership (LEP) for Basing View investments, the council has no plans or intentions to carry out any long-term external borrowing during 2020/21 because it has sufficient cash resources and can effectively "internally borrow" in the short term if required.

The council has however taken steps to secure preferential borrowing rates (called the preferred certainty rate) from the Public Works Loan Board in case the borrowing position changes.

Property Investment Strategy

The council has agreed and implemented a Property Investment Strategy which aimed to invest up to £30M in new and existing investment properties in order to increase the council's income. This was given additional flexibility of up to £35M in order to complete final purchases under the strategy.

The Property Investment Strategy was expected to generate returns between 5% and 7% range and will achieve an overall return of 7.1% when all investments complete.

£32.51M has now been invested in new properties as part of this strategy, including an earmarked investment of £8.90M which is expected to complete in 2020/21. These investments are expected to generate a return of £2.30M once all of the investments are in place. No further acquisitions under this strategy are now envisaged.

The Annual Property Plan underpins the Property Investment Strategy. Preparation of the Annual Property Plan is intended to directly support the council's Medium Term Financial Strategy. With total new investments of £32.51M, the priority is now to consider the wider property strategy under which the investment strategy will sit, in order to bring specific focus on key outputs from operational property, community assets and investment with proposed amendments to be brought forward for formal consideration under a new Property Strategy during 2020.

As part of the review of the Medium Term Financial Strategy it is proposed that no further investment is made in property from additional treasury management funds. However, investment will occur through the asset management of the portfolio, disposing of assets that no longer meet the council's requirements and using funds generated from disposals to reinvest in new strategic investment assets.

1.4 Internal context

The council is pressing ahead with its strategic projects. Manydown Garden Communities LLP has been established to deliver a new garden community at Manydown with 3,520 homes by 2029. Regeneration of the leisure park is progressing to create a world-class regional leisure destination. A programme of major development at Basing View is securing this business district as a key business destination and site for inward investment. The council's Town Centre Strategy, Transport Strategy, Economic Growth Strategy and Economic Masterplan underpin and support this work. Enterprise M3 LEP and Hampshire County Council are strategic partners, working with the borough council to bring additional infrastructure investment into Basingstoke and Deane.

The council's focus on investing in the future of the borough through strategic projects produces a double benefit of generating additional income while also supporting the borough in terms of employment, town centre/local economic vitality and business rates.

The council is also encouraging the roll out of 'smart' connectivity and the latest broadband capability, in the town and across the borough, as part of this infrastructure provision. Within the organisation, a programme of digital transformation is under way to deliver benefits to staff and customers of more joined up and efficient service delivery, giving customers more choice over how they communicate with and access council services. Linked to this, the organisation is also looking at smarter ways of working and innovative use of technology for office and frontline services. In addition to efficiencies through technology, the council is exploring commercialisation opportunities to bring in additional funding to support service delivery.

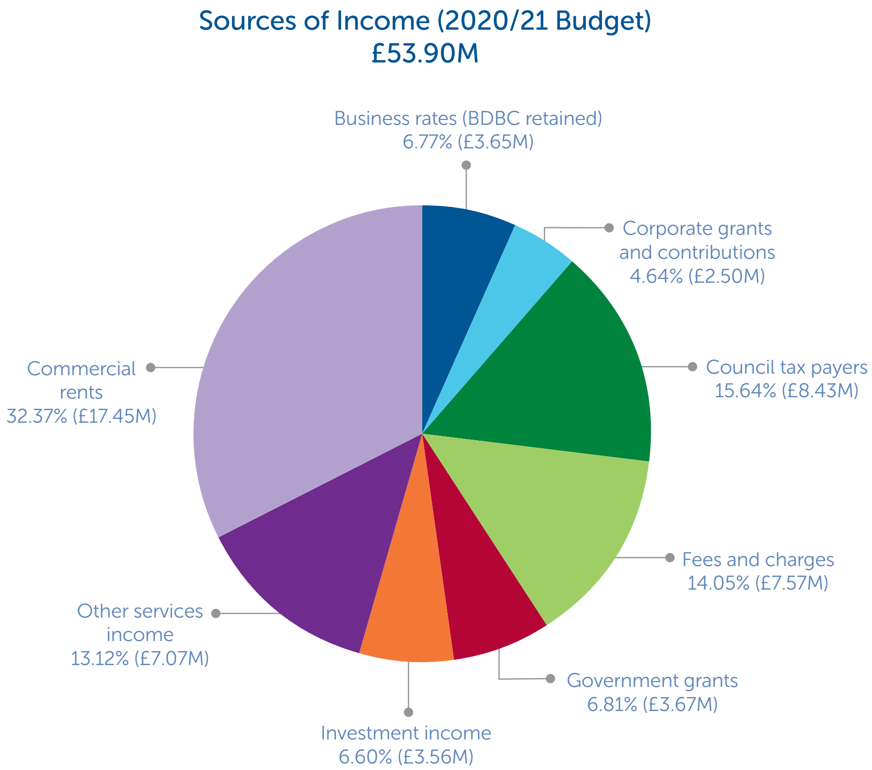
This council has a long track record of good financial planning and management. As a result of past decisions and innovations, the council is underpinned by excellent financial foundations and has a strong balance sheet with diversified investments, healthy reserves and no significant borrowing. This financial position supports the delivery of high quality services with a very low level of council tax.

Since 2009 savings of £13.70M (25% of the gross underlying expenditure budget) have been achieved, within an extended period of national public expenditure reduction and historically low interest rates. These have been delivered with minimal impact on delivery of services.

In addition to making savings the council has also successfully implemented a new Property Investment Strategy that has already invested £24.00M in the local economy which will provide estimated additional income of £1.91M in 2020/21 increasing to £2.30M from 2021/22.

This increased commercialisation has improved the resilience of the council by diversifying funding sources and reducing reliance on government grants over which the council has little control or influence. As shown in chart 1 below, the council has a wide range of income sources including commercial rent, alternative investment strategy, fees and charges, business rates and council tax.

Chart 1 – Income Sources



1.5 National and external factors

The MTFS is set within the context of national economic and public expenditure plans, and takes into account the national legislation setting out the council's ability to borrow and to raise income from council tax and other sources.

Local Government Finance Settlement 2020/21

The 2019/20 funding settlement was the fourth and final year of the government's current grant settlement. The government previously stated its intention to hold a new spending review in 2019, covering the period 2020/21 to 2022/23. However, with the unsettled political position around Brexit, it was announced that a one-year spending round would be provided, covering the financial year 2020/21 and this would be followed in 2020 by a full Spending Review, reviewing public spending as a whole and setting multi-year budgets.

The delay of the longer term spending review covering all government departments makes medium term financial planning very challenging as significant changes are expected which could have a high risk of reducing current funding.

In addition to reviewing the overall level of local government funding, the government is also likely to make fundamental changes in the distribution of funding across different tiers (districts, counties and unitaries) and geographic areas. With the current pressure on social care budgets it is perhaps likely that there will be some redistribution of funds away from districts to those with social care responsibilities i.e. unitaries and counties.

Spending Review 2020/21

Following the delay in the multi-year settlement, the government announced its one-year spending plans on 4 September 2019 and after a period of consultation, the Provisional Local Government Finance Settlement (PLGFS) was confirmed in December 2019 as follows:

- Business Rate Retention, Fair Funding Review and Baseline resets will be unchanged for 2020/21 and deferred to 2021/22. The three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff / Top Up amounts) have all increased by 1.63%, in line with the September 2019 CPI inflation figure although there is no impact for this council, 75% business rate retention pilots are to cease.
- New Homes Bonus (NHB) – The 2020/21 allocations have been announced and the council will receive £3.031M. This includes legacy payments due from previous years (2017/18 to 2019/20). As previously announced, there will be no future legacy payments for the 2020/21 in year allocations. The deadweight of 0.4% was maintained, with an additional £7M added from departmental resources (total funding of £907M). Technical consultation has now started on possible changes to future NHB payments but the outcome of this is still unknown. The MTFS has been updated to reflect the expected reduction in allocations
- Council tax (Band D) thresholds – The provisional settlement confirmed districts will be allowed to apply the higher of the referendum limit or £5. The council tax referendum limit will be 2% for local authorities, with social care authorities allowed a 2% social care precept.
- additional £54M to combat rough sleeping and homelessness; and
- funding to remove negative Revenue Support Grant (RSG) has been continued for 2020/21.

Other – announcements with limited direct impact on BDBC

- additional £54M nationally to combat rough sleeping and homelessness;
- additional £1bn grant nationally for social care (children and adults) and up to £500M via 2% increase in council tax (social care precept) – existing grants totalling £2.5bn in 2020/21 to support social care will continue;
- additional £700M nationally to support children with special educational needs via Dedicated Schools Grant; and
- additional £24M nationally to improve building safety.

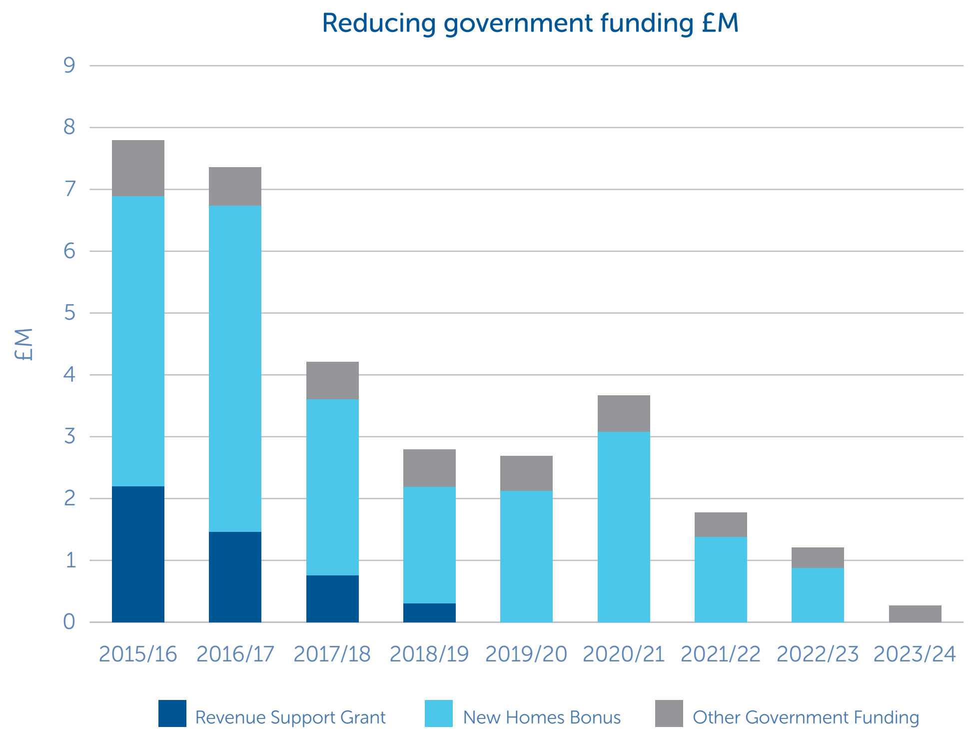
In summary whilst additional resources were provided to the county council, there was no increase in funding to this council.

The PLGFS 2020 to 2021 consultation was announced in December 2019. This sought views on a number of issues including NHB, council tax referendum limits, social care funding and RSG. The consultation closed on 17 January 2020.

The Government announced funding assumptions for for the Final Local Government Settlement (FLGFS) for 2020/21 on 6 February 2020 which confirmed an additional award of £0.05M of New Homes Bonus Grant for this council since the figures were announced in the PLGFS.

Chart 2 shows how central government funding has reduced by 50% or £4M over the past five years, requiring the council to reduce costs or identify alternative sources of income.

Chart 2 – Government funding



Following a one off increase in 2020/21, New Homes Bonus reduces to nil by 2023/24.

Fair Funding Review

The Ministry of Housing, Communities and Local Government (MHCLG) is currently undertaking a fair funding review on the formula for distributing funding to councils and as part of this is considering options for assessing local authority needs and resources. The review includes Revenue Support Grant (RSG) and the level of baseline business rates which each council is able to retain. The council already receives no RSG but is at risk of having to pay negative RSG to the government in future. This government spending review announced that negative RSG would be removed in 2020/21. The consultation sought views on how this should be treated in future years.

Retained business rates

The spending review, reaffirmed the government's intention to introduce a new business rate retention scheme, looking to change this from the current 50% retention scheme to at least a 75% retention scheme which it can achieve without a need for a change in legislation. The ultimate aim still being to introduce a 100% retention scheme.

Additionally, it will look at the tier splits between district, counties and fire authorities (currently 40:9:1) along with business rates baseline resets.

It is anticipated that this baseline reset would have a limited impact on the council however, the impact will have to be assessed once further details are known and built into future updates of the MTFS.

MTFS funding assumptions

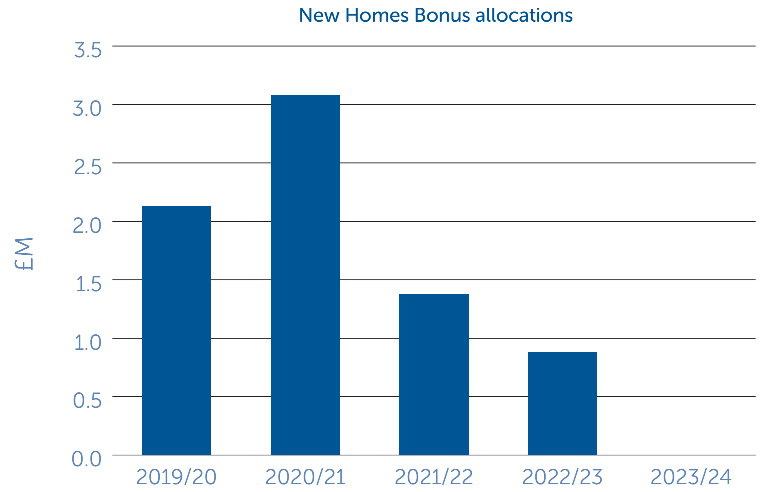
Based on previously applied methodology, following consultation periods, any impact of government funding changes is likely to be phased in through transitional arrangements.

The budget strategy therefore assumes that in 2020/21 central government funding will overall remain at current levels and that council tax will increase by £5 in 2020/21, 2021/22 and 2022/23. Thereafter, the MTFS assumes the current general referendum increase limit of 1.9%.

New Homes Bonus

As shown in chart 3 below, this is an important source of income with the council receiving just over £3M in 2020/21.

Chart 3 - New Homes Bonus grant allocations



The current system rewards councils for housing growth with additional funding for four years (previously six years). The spending review in September announced that legacy payments for 2020/21 would be funded but did not give information regarding future years. The FLGFS has further confirmed that previous years legacy payments will continue to be paid but there will be no future legacy payments for new growth in 2019/20.

The MTFS currently includes legacy payments over 2020/21 to 2022/23 for growth that occurred before 2019/20 but does not include any new awards of New Homes Bonus after 2020/21.

The government is currently considering the future of NHB. The outcome of this is currently unknown but will have an impact on the overall levels of income received.

The current MTFS recognises the risk of assuming the receipt of NHB and only allocates the first £0.25M to support ongoing general fund services. Given the changes indicated as part of government consultation, the update of the MTFS continues this assumption.

The current financial policy for NHB assumes that any additional grant, received in addition to the first £0.25M, will be allocated as follows:

- 20% to the Local Infrastructure Fund (Reserve) to provide enhanced funding for community infrastructure;
- 55% to the Housing Reserve - Manydown to provide funding for the development of Manydown;
- 25% to the MTFS Risk Reserve; and

- the first £0.25M per annum of any allocation to the Housing Reserve – Manydown will be reallocated to the Efficiency, Transformation and Digital Reserve.

Council tax referendum limits

The spending review announced the intention that the council tax referendum limit would be 2% but would be subject to consultation in the PLGFS.

As in recent years the PLGFS has confirmed the flexibility for districts to increase council tax by up to £5 and this has been included in the MTFS.

There was no change to the 2% or £5 referendum limits in the FLGPS. The council tax base was set by the S151 officer in January 2020 and is reflected in this MTFS.

Future economic outlook

The global economy is entering a period of slower growth in response to national and global political issues, primarily the trade policy stance of the United States. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.

Interest rates

It is forecast that base interest rates will remain at 0.75% for the foreseeable future and that gilt yields will also remain low. However, there are substantial risks to the forecast which are weighted to the downside, dependant on Brexit outcomes and the evolution of the global economy.

The risk of an economic downturn is that it could reduce the council's income for example from commercial rents, fees and charges (including planning fees, land charges and building control fees) and investments. There could also be additional pressure on welfare related costs e.g. benefit payments, council tax support and bed and breakfast and homelessness prevention.

1.6 Key assumptions

Local authority budgeting is by its very nature difficult to forecast with absolute certainty since there are so many variables that need to be assessed.

Table 1 summarises the key assumptions contained within the Medium Term Financial Strategy. These assumptions will be the standard assumptions used to drive all financial planning within the council, where applicable. Figures in brackets represent a reduction.

Table 1 – Key MTFS assumptions

Key area	Central case 2020/21 to 2023/24
Pay	2% pa and allowance for incremental increases
Vacancy Factor	2.25% pa
Inflation	2% pa except: 1% pa supplies and services (incl external grants) 3% pa contracted services
Fees and Charges	3% pa (RPI)
Interest Rates	Base rates remain at 0.75%
Business Rates Income	Retained rates including estimated net growth after allowing for inflation of 1.63%
Council Tax Increase	£5 pa for 2020/21, 2021/22 and 2022/23 followed by a 1.9% (£2.59) increase in 2023/24
Tax Base (band D equivalent properties)	Increase 878 homes for 2020/21 and 850 homes pa from 2021/22 onwards
New Homes Bonus Growth	Grant allocation for one year only. Existing growth pre 2019/20 will be paid under the existing four-year scheme
Use of New Homes Bonus Grant to support revenue budget	Use of £0.25M pa
Increasing contributions from revenue to fund future capital expenditure	£0.5M in 2020/21, £1.5M in 2021/22, £2.5M in 2022/23 and £4.0M pa from 2023/24 onwards

Business Rate Retention Scheme

The Business Rate Retention (BRR) Scheme was introduced in April 2013 and represented a major change in the way in which local government is funded. It is seen by the government as providing a direct link between business rates growth and the amount of money local authorities have available to spend on local services.

Councils are able to retain a proportion of their growth in business rates and will also be taking the risk of reductions in business rates, although there are ‘safety net’ arrangements in place to protect against very large reductions.

The government’s original intention was to introduce a 100% BRR scheme in 2019/20, alongside introducing additional responsibilities for local government to ensure fiscal neutrality for central government. However, there has been significant slippage in the timetable and transitional step to 75% business rate retention has been delayed.

A consultation was launched at PLGFS 2019 on reform of the business rates retention system. The consultation covers two broad areas:

- the balance of risk and reward in the business rates retention system; and
- mitigating volatility in income and the impact of appeal losses and valuation changes on local authorities.

A consultation is also being undertaken on the approach to measuring the relative needs and resources of local authorities. The main points to note are:

- the methodology for the needs assessment has not been updated since 2013/14 and has not kept up with demographic changes and other spending pressures;
- the government launched a Fair Funding Review in 2017 with three strands: relative needs, relative resources and transitional arrangements;
- a consultation on relative needs, looking at ways to reduce the number of formulas involved and identifying the most important factors which drive costs of services was completed in early 2018;
- this latest consultation marks the next step in developing a new distribution methodology and seeks views on the approach to measuring the relative needs and resources of local authorities, with the aim of determining new baseline funding allocations;
- the consultation proposes to simplify the assessment of local authorities' relative needs by introducing a simple Foundation Formula, alongside several service-specific formulas;
- it looks at what adjustment might be made to formulas to reflect differences in costs between different geographic areas and the impact of accessibility and remoteness on costs;
- it considers how other sources of income available to local authorities, such as council tax and sales, fees and charges, will be taken into account in determining funding baselines; and
- the consultation proposes a set of principles to be used to design transitional arrangements.

The Queen's Speech makes high level reference to business rates reform and will consider input 'from the sector' as part of this review. Further details on the review are still to be announced but will include:

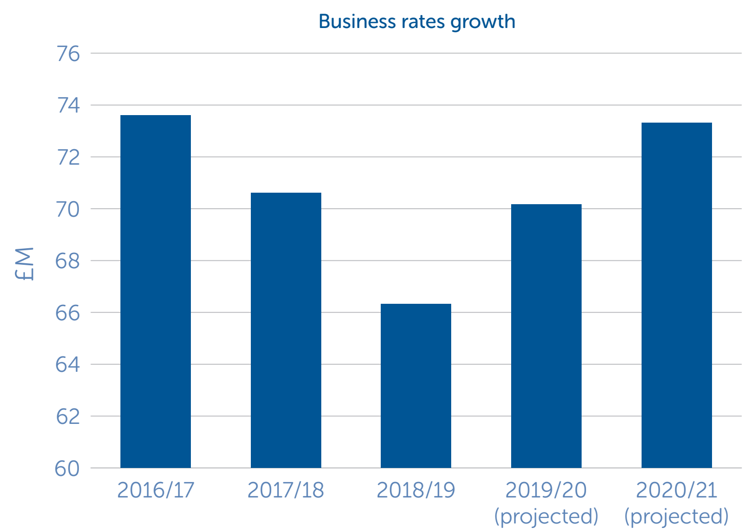
Government commitment to increase the retail discount from one-third to 50%, extending that discount to cinemas and music venues, extending the duration of the local newspapers discount and introducing an additional discount for pubs;

Progress legislation to bring forward the next business rates revaluation by one year from 2022 to 2021, and move revaluations from a five-yearly cycle to a three-yearly cycle. This will allow the government to press ahead with delivering the reform. More frequent revaluations will ensure that business rates bills are more up to date reflecting current rental valuations and be more responsive to economic change.

There has been an assumption built into the MTFS for business rates growth, this is based on an assessment of new property developments undertaken in conjunction with the planning section. This estimate is based on projects which are already in the pipeline.

Chart 4 below shows the steady increase in business rates which is projected from 2018/19. This mainly relates to new businesses at St Michaels Retail Park, Basing View, Winklebury, Chineham and Houndmills.

Chart 4 – Business rates growth



Council tax

As set out in Table 1 on page 17, the assumption is that council tax rises will be set at the referendum limit of £5 in 2020/21, 2021/22, 2022/23 and 1.90% in 2023/24 and future years.

The tax base that has been assumed for each financial year is detailed in Table 1. This reflects the required adjustments as a result of the localisation of council tax benefits and changes to associated funding which was implemented from 2013/14. It also incorporates growth in the tax base arising from new developments.

A new local council tax scheme (LCTS) was introduced in 2013/14 which, as a result of the localisation of council tax benefits, allows the council to set its own criteria for offering reduced council tax for those eligible. The forecast position includes a grant for LCTS administration grant.

Revenue Support Grant (RSG)

Historically a major source of funding for the council has been the RSG, however since the austerity measures were introduced this grant has been reduced drastically with the council suffering a 100% reduction between 2013/14 (when the Business Rates Retention scheme came in) and 2019/20.

Housing Benefit (HB) Administration Subsidy

Following the abolition of council tax benefit (CTB) and the introduction of local council tax support (LCTS) in April 2013, the funding baseline for HB/CTB has remained disaggregated. The Department for Work and Pensions (DWP) is responsible for allocating the housing benefit element to local authorities with the responsibility for distributing the remaining LCTS element being with the Ministry of Housing, Communities and Local Government (MHCLG).

Each year the housing benefit administration subsidy has been reduced and this will continue into 2020/21 as the DWP applies a percentage reduction as an efficiency saving based on the previous year's allocation and also takes into account Universal Credit. The DWP also applied a new methodology for allocating the subsidy in 2019/20 which has resulted in a further reduction for the council, mitigated by transitional protection. Under the new methodology the subsidy is more closely aligned with the latest housing benefit caseload figures. A further year's grant has been confirmed for 2020/21.

Other grants

The council receives a variety of other grants from government and the MTFS assumes these will decline from £0.59M in 2020/21 to £0.27M in 2023/24.

The result of these assumptions is that the council will receive minimal levels of funding from central government by the end of the term of the MTFS.

Pay inflation

Assumptions have been made in the forecast about the likely level of pay inflation that will apply from April 2020. As a large proportion of the council's expenditure is pay related, this can have a significant impact if actual rates are much higher than predicated.

A 2% pay award has been assumed from 2020/21 and future years.

National Living Wage

The government's July 2015 budget announcement introduced a new premium for those aged 25 and over leading to a new National Living Wage (NLW) of £7.20 in April 2016. The government's longer term ambition has been for the NLW to increase to 60% of the median earnings by 2020, and the Low Pay Commission has now recommended (December 2019) an increase from April 2020 which will allow this goal to be met, meaning the current rate of NLW (£8.21 for people aged 25 and over) will increase by 6.2% to £8.72 an hour. Increases (ranging from 4.6% to 6.5%) from 2020 are also recommended for all age groups from 16 to 24, including the apprentice rate.

The government has accepted these recommendations in full as part of a package of measures to support people and families in low paid jobs. The Queen's Speech (December 2019) has set a further NLW target, that it should reach two-thirds of median earnings by 2024, which, according to current forecasts, would take the rate to £10.50 an hour by 1 April 2024. Moving forward, 2020 will be the final year in which the NLW will apply to workers aged 25 and over with the age threshold coming down to 23 in 2021 and to 21 by 2024.

The Low Pay Commission's (LPC) recommendations are conditioned on sustained economic growth and this bar was more narrowly reached than in previous years. Nevertheless the economy has continued to grow. The LPC will monitor the evidence and report further to government on the challenges involved in further increases – this includes review of Office for Budget Responsibility (OBR) forecasts, analysis of average wage growth, job growth, and employer responses (the impact on recruitment, profits, productivity, investment decisions, and the cost of goods and services).

In the meantime, to provide further support to the low paid, the government will increase the National Insurance threshold to £9,500 from April 2020 and has committed to not raise rates of VAT, income tax and National Insurance.

General inflation

Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2020. If inflation were to increase at a higher rate than anticipated then this would have an impact on the council, not least because the council's major contracts are uplifted by indexation linked to inflation on an annual basis.

Current indications are that - in the short term at least - an increase is unlikely (in fact inflation is currently forecast to be more or less static over the medium-term). However, the risk has been mitigated by the inclusion of amounts in risk reserves to cover key elements of inflation, for example in relation to fuel and energy costs, which can be volatile.

Beyond this provision, it is likely that this would be managed as an 'in year' issue and that services would be expected to absorb the difference.

Pension fund employer costs

The results of the 2019 pension fund triennial valuation have now been received.

In 2016, at the time of the last valuation, the pension fund was reported to be in the region of 80% funded. This left a deficit on the fund that had to be recovered from the employers, over an extended period (19 years). The results of the 2019 valuation, have shown that the fund is fully funded following improved investment returns over the three year period. A scheduled body employer, the payments needed to fund past deficit contributions will therefore reduce from 2020/21.

It should also be noted that, following extensive consultation and the positive fund position, scheduled body employers now get their own future service rate (employers contribution) based on their own specific employee and risk profile. Previously all scheduled body employers paid the same group rate irrespective of their past liabilities and employee age profile. The updated employer contribution rate has been included in the MTFS assumptions.

As a result of the fact that employers now have their own individual employer contribution rate, councils have also been given the opportunity to 'prepay' their pension fund contribution in return for which a discount on the overall sum is received. This provides a benefit to the fund as well as a financial return to the council. The options for this have been considered as part of the Treasury Management Strategy.

Public sector employment - restrictions on exit payments

The Enterprise Act 2016 gave powers to the government to restrict public sector exit payments through the introduction of a £95,000 cap on such payments. The government brought forward a consultation on implementing these changes in 2019 and as of December 2019, the outcome of this is awaited. Although the original timetable has slipped, the government has reiterated its commitment to ending six figure pay outs in the public sector.

Within the overall cap / package to limit exit payments the government is considering proposals appropriate to each workforce to include:

- a maximum tariff and base salary on which redundancy payments are calculated;
- a cap on the value of employer funded pension 'top-ups';
- an increase in the minimum age at which an employee is able to receive an employer funded top-up;
- other general limits on most employer-funded payments made in relation to leaving employment; and
- consideration of any case for protection during the transition period for those with exit agreements formally agreed on terms that pre-date the new exit compensation arrangements coming into effect.

In addition to the above, new regulations came into force from April 2016 on the requirement to repay exit payments for up to 12 months after payment if further employment is undertaken within the public sector during that time for employees earning over £100,000 per annum.

1.7 Key risks

There is a significant degree of uncertainty, arising from both internal and external factors, which could have a significant impact on the key assumptions made within the MTFS. The macro financial systems within which the council operates are complex and highly sensitive to a range of variables and it is therefore important that risks, that could have a material effect on the financial position of the council, are identified and understood in terms of the potential impact (positive or negative) and the likelihood of occurrence. The foregoing recognises the importance of having adequate mechanisms in place to identify and manage risks in order to support the achievement of financial stability.

The key financial risks to the council's financial position over the short to medium term are reflected in the assessment of the adequacy of estimates and reserves.

Factors that can have a material effect on the financial position of the council include:

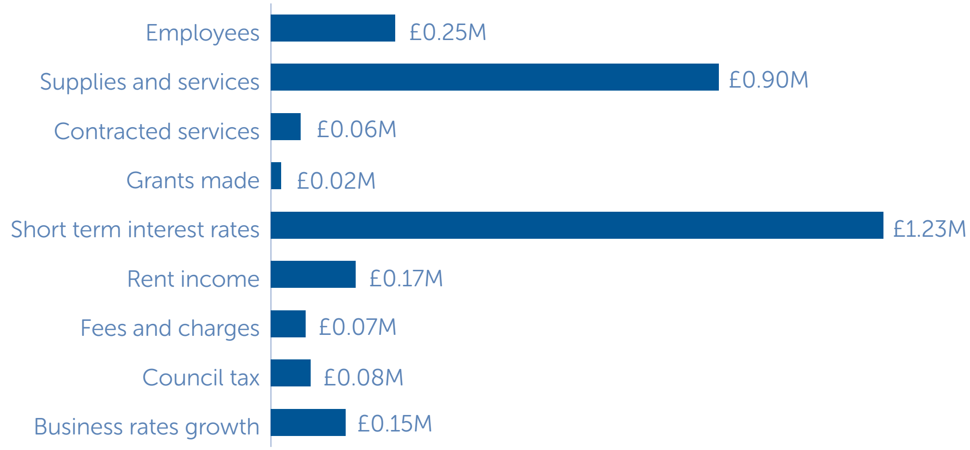
- the lack of certainty in government funding for future years including grants and the new fair funding formula;
- changes in function;
- changes in how services are funded;
- changes in the economy;
- changes in councillors' priorities;
- unmanaged service pressures and increases in demand;
- council tax policy;
- changes in legislation and government policy;

- level of future pay awards and general inflation assumptions;
- adequacy of contingencies in any one period;
- business rate volatility, more frequent business rates revaluations and business rates retention;
- treasury management and interest rate changes;
- projected income levels from fees and charges;
- non achievement of savings;
- impact of National Living Wage;
- level of provision for insurances;
- new burdens;
- welfare reforms;
- provider failure;
- demographic changes; and
- impact of the exit from the European Union, both nationally and locally.

It is important to note that the revised forecast represents the most realistic forecast position moving forward. However, there are a number of risks associated with these revised forecasts, the main risks being as follows:

1. Financial risk – the majority of the future years' financial strategy and model is based on a series of assumptions, the further into the future you look the higher the risk that these assumptions are more volatile than usual in the current economic climate. The MTFS is reviewed annually and will need to remain flexible to respond to changing circumstances. A relatively small change in key underlying assumptions can produce a significant change in the forecast. The key sensitivities are employee costs, business rates income, rent income and investment income. These are outlined in chart 5.

Chart 5 – Annual impact of 1% change in key sensitivities



2. Political risk – The 2019/20 funding settlement was the fourth and final year of the government's current grant settlement. The government previously stated its intention to hold a new Spending Review in 2019, covering the period 2020/21 to 2022/23. However, with the unsettled political position around Brexit, it was announced that a one-year Spending Round 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. Treasury risk – The MTFS is based on a reasonably stable global financial position going forward, taking into consideration that there are unknowns with regards to the impact that exiting the European Union may have on the council's finances. If the assumptions change it may have a major impact on the financial position of the council particularly around commercial rents, business rate income and interest payments. The Treasury Management Strategy sets the parameters in which borrowing can be undertaken and along with longer term forecasts for low interest rates. The council holds risk reserves for rents, business rates and interest to meet one off shortfalls in income as the council's funding position becomes more reliant on these sources of funding.

4. Transformational change – It is essential that the council continues to further its major change programmes to ensure the organisation is 'fit for the future' and is sustainable. There is a degree of risk associated with this type of change, particularly as the management capacity to drive this change through reduces, and as we seek to deliver significant change against a backdrop of constrained funding.

5. Brexit – The government majority secured in the 12 December General Election reduced the risk of a no-deal Brexit and increased the likelihood that the UK will leave the EU on 31 January 2020 with the deal negotiated by the Prime Minister in October. It is considered that an EU exit framed through a deal with a transitional period to undertake further trade negotiations is far less likely to result in any economic downturn than in a no-deal scenario.

The council has undertaken impact assessments to understand the impact of Brexit on local service provision, communities and the economy and has been working with partners such as Hampshire County Council to assess resilience across the whole range of public sector services. These impact assessments are continually under review and incorporate the latest economic forecasts and economic confidence.

6. Property investment – Local authorities have had to find new and innovative income streams in order to continue to deliver services to the highest standards that are expected by their residents, businesses and partners. Linked to this is significant growth in property investment by local authorities to generate an income return.

Further consultation was undertaken on the CIPFA prudential code, specifically linked to property investment, with a view nationally, that too much reliance has been put on this area of investment by local authorities to underpin their financial position. Predominantly this concern relates to the need to borrow to undertake this investment.

The council has a successful track record in property investment which generates significant financial returns, and supports strong financial resilience and sustainability. It is important to note that it has been able to do this without the need to borrow.

There is a risk in the current uncertain economic climate of a downturn causing a loss of rental income or capital value of an asset affected which, if it is one of our more substantial assets, could have a significant impact on the overall budget position. The Property Investment Strategy will be kept under review alongside the development of the council's overarching property strategy and an update of the asset management plan to ensure that we continue to protect this vital income stream. Any changes will be reported in due course.

7. Hampshire County Council (HCC) transformation savings – HCC consulted on its financial budget options for 2020 to 2022 from June to July 2019.

This included a range of proposed actions and changes to services that will be delivered through its Transformation to 2019 and 2021 programmes. A summary of the potential impact of the proposed changes to local services is as follows:

- community and voluntary sector: increased demand on volunteers / reduced grants for short breaks activities;
- social inclusion: some improvements and some reduction in support for vulnerable people;
- digital: increased use of online channels is in line with council work but could leave some people more socially isolated;
- transport and climate change strategies: potential issues of increased school transport, need to travel longer distances to services and potential environmental impact due to wood burning at home (as a result of charging for wood at waste recycling centres);
- health and wellbeing work: reduction in some public health services, participation in activities by children / young people with special educational needs and adults with learning or other disabilities; and
- reduction in some services: trading standards, library, street lights turned off for longer, highways and winter maintenance, short breaks activities, public health services for example, Family Support Service.

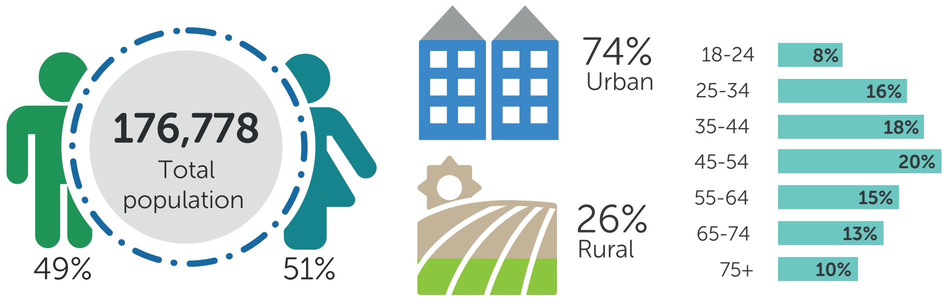
Actions to mitigate these potential changes are being considered and HCC has confirmed that, subject to the views of its Cabinet and Council, more detailed consultations will be undertaken. This will include proposed changes to library service provision, which runs until 13 March 2020.

The council is currently developing a response to the consultation to ensure that the impact on Basingstoke and Deane residents is fully understood by the county council. Following consideration of feedback from these consultations a final decision will be made by HCC on changes to its service provision.

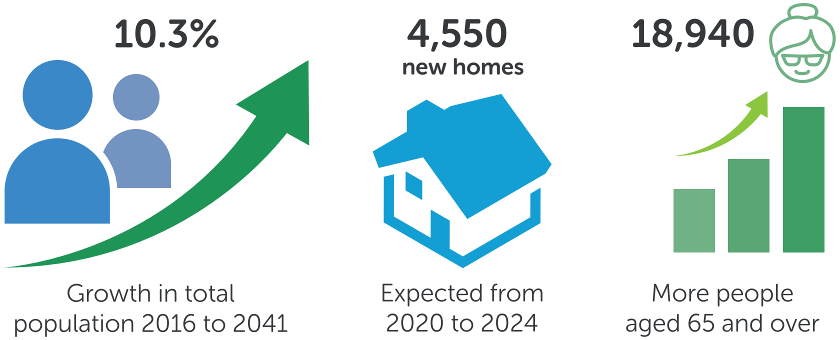
Section 2: Horizon scanning

2.1 Demographics

Current population



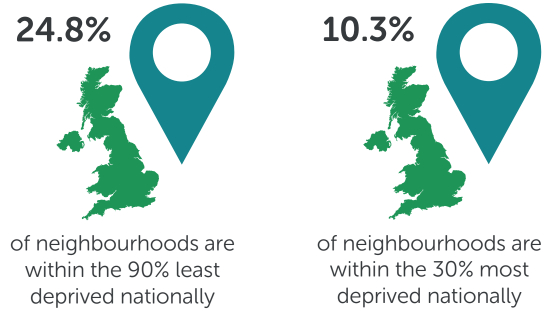
Growth



The impact of the ageing population on health and social care services is hard to predict. It may lead to increased costs or the growing number of older people may create new economic and social opportunities. However, nationally and locally it is acknowledged that it places pressure on services to support older people such as adult social care, and the need for continued funding for Disabled Facilities Grants which comes from the government via upper tier authorities in the Better Care Fund. The funding pressures for older persons' services make close working between district councils, county councils, the NHS and supported housing providers vitally important. The government has maintained continued support for pensioners, committing to retain the Triple Lock on pensions, the winter fuel allowance and free bus passes.

Communities created in new developments around the periphery of Basingstoke town and those in the borough's towns and villages require services in place from the outset and this creates a challenge for the council and partners: that new communities have the right services in place and existing communities are not left behind.

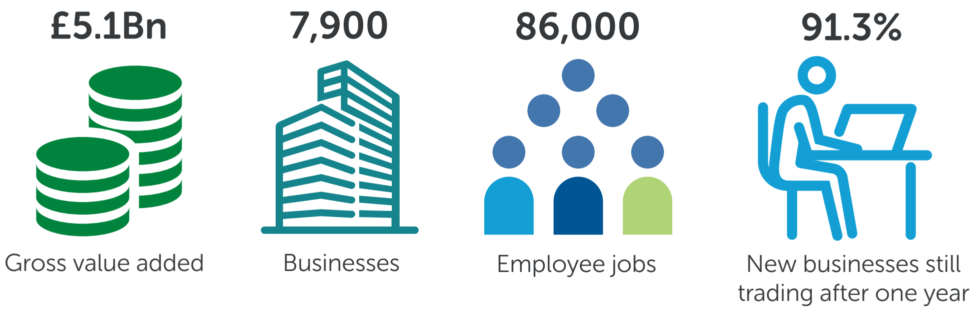
Deprivation



The council's place-shaping approach seeks to reduce inequality across the borough and create and ensure attractive, vitalised neighbourhoods with community infrastructure that meets local need.

The council has in place a broad range of measures to support people into home ownership, to enable access to the private rented sector and to deliver more affordable homes for people who need social housing, working with Registered Providers and other partners. Through the Social Inclusion Partnership the number of people sleeping rough has fallen in consecutive years to five in 2019.

Economy

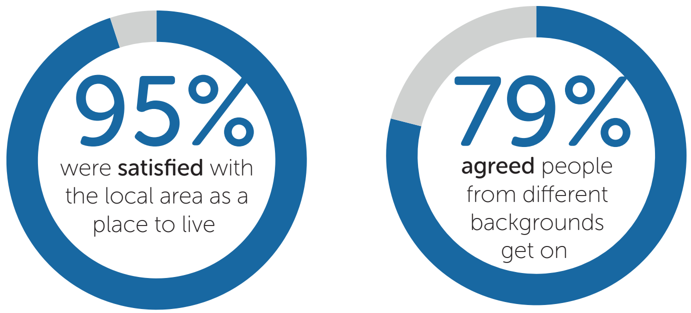


One of the borough's key economic strengths is its diverse range of industry sectors; this enables jobs to be provided across a whole range of pay scales and skills levels. The council's Economic Growth Strategy identifies a number of different challenges including skills shortages, access to talent and ensuring that the benefits of prosperity and opportunities are available to all across the borough. This Strategy and the Economic Masterplan to 2033, involve working with people, communities, businesses, education establishments and strategic partners such as the Enterprise M3 LEP to retain and attract businesses and talent.

2.2 Residents' survey 2019

As part of the council's engagement with the community, specialist independent researchers are regularly commissioned to carry out residents' surveys to understand views on quality of life factors and service satisfaction.

The 2019 residents' survey was carried out in November and December, with 15-minute, face-to-face doorstep surveys with a representative sample of 1,105 residents. The results show that residents are positive about living in Basingstoke and Deane:



There were high levels of satisfaction with the council:

The vast majority of residents agreed with the four priorities in the Council Plan:

The five factors that make somewhere a good place to live, according to residents, are the level of crime and antisocial behaviour, clean and litter free streets, health services, affordable housing and shopping facilities. The factors that most need improving are affordable housing, road and pavement repairs, public transport, health services and activities for teenagers.

Residents feel that the most important services provided by Basingstoke and Deane Borough Council are collecting recycling and rubbish bins, dealing with antisocial behaviour and having clean and litter free streets. In contrast, the least important services are allotments, public toilets and the provision of free events for the community.

2.3 Climate emergency

The government Budget expected in March 2020 is expected to prioritise the environment with investment in infrastructure, science, R&D and clean growth. The Environment Bill announced in the Queen's Speech will enshrine environmental and climate change targets into law.

At the meeting of Council on 18 July 2019 all councillors agreed to request that Cabinet declare a climate emergency. This includes a target of becoming a carbon neutral in terms of the council's emissions by December 2025 and more widely as a borough to achieve net zero carbon by 2030. Cabinet made the declaration on 10 September 2019 and subsequently an Officer Delivery Group and Members Advisory Panel have convened with the flow of information and actions as follows.
The Basingstoke Area Strategic Partnership conference on 5 December and an external review of the council's plans by Local Partnerships has further informed the work and an Actions List (showing short, medium and long term actions) has been produced. Opportunities will be sought to bring about environmental benefits through procurement, routine contract review and sourcing green energy. Partnership working will be paramount and the Government's focus on green infrastructure (including plans to require electric charging points for new housing and for large commercial developments) will underpin this.

The financial commitments to deliver the council's programme are reflected in the MTFS within the Environment and Enforcement portfolio. Funding has been identified for a two-year fixed term Climate Emergency Project Manager post and support provided by Local Partnerships.

However, going forward, the scale of resources required will be dependent on the priority actions identified and identification of sources of funding as appropriate. This will include external grant opportunities as they arise. Climate considerations will be included in all committee, Cabinet and Council reports and in the council's Equality Impact Assessments. This will include investment in new vehicles with a climate change focus. A new ear marked reserve to support the Climate Change Agenda has been proposed with an allocation of £1.00M in 2020/21.

2.4 Welfare reforms and roll out of Universal Credit

The government has confirmed its intention to continue the roll out of Universal Credit and alongside that to end the benefits freeze and increase working age benefits, and the Local Housing Allowance from April 2020. This signals the end of the benefits freeze introduced from April 2016. The pensioners triple lock and winter fuel payments will continue.

The social housing rent reduction policy introduced in April 2016 will end with increases in social and affordable rents permitted of CPI +1% from April 2020 for at least the next five years. This is intended to support private registered providers, and local authority registered providers, to make the best use of their resources and assets and provide a stable financial environment for them to deliver more affordable homes.

2.5 Forthcoming Parliamentary bills

The Queen's Speech at the reopening of Parliament on 19 December has put forward the following bills and policy areas:

- the European Union (Withdrawal Agreement) Bill which will bring into law the deal agreed with the EU in October and provide for the UK's exit from the EU on 31 January 2020. The deal allows for a "transitional period" to 31 December 2020 for the UK and EU to agree a trade deal and during which EU law will continue to have effect and free movement of EU citizens to the UK will continue;

- a new Immigration and Social Security Coordination (EU Withdrawal) Bill to allow the government to deliver a new points-based immigration system from January 2021 when free movement ends;
- there are several new bills being introduced to establish the new legislative regime for key sectors after Brexit: the Fisheries Bill, Agriculture Bill, Financial Services Bill and the Trade Bill;
- a Serious Violence Bill which creates a new duty on public bodies and other agencies to work collaboratively to share intelligence and create plans to prevent serious violence;
- a Domestic Abuse Bill which changes the justice system so it better supports victims and children affected by domestic violence;
- an Environment Bill to bring carbon reduction targets and environmental protection policies into law;
- cross party agreement on social care reform and its long term funding;
- plans for a devolution White Paper to come forward early in 2020 to give greater opportunity for local authorities to take on devolved funding and responsibility from Government;
- a comprehensive review and reform of building regulations to bring into effect the findings of the Dame Judith Hackitt Review following Grenfell;
- continue reforms to leasehold developments and to the private rented sector; and
- develop a National Infrastructure Strategy that includes digital, road, rail, public transport, green energy and low carbon, waste, water and flood management infrastructure.

Post-Brexit policy will include a replacement scheme to the current EU funding streams available. The consultation should provide details of how funds are to be allocated across the regions and, together with the National Infrastructure Strategy, will outline the Government's infrastructure priorities for the South East.

2.6 Physical-environmental factors (housing)

The council successfully works in partnership with housing associations, other public and private sector organisations and community groups to explore regeneration and place-shaping opportunities in areas such as Buckskin, Norden, South Ham, Popley, and Winklebury. This could involve future investment in community facilities on a one public estate footprint to maximise co-location potential and enabling housing developments on council and non council owned sites to unlock potential for development.

The programme of work is ongoing using the Indices of Deprivation and place-based consultations to investigate new opportunities for neighbourhood improvements and new and improved community facilities.

2.7 Wider partnership working

Basingstoke and Deane Borough Council works with a number of different partner organisations delivering services in the local area. Basingstoke Area Strategic Partnership (BASP) is a voluntary partnership which brings together different sectors to focus on local issues in a strategic and coordinated way across north Hampshire.

Strategic planning on sub-regional issues takes place with Hampshire County Council, the Enterprise M3 Local Enterprise Partnership and Transport for the South East. The council works with these organisations to lever into the borough government infrastructure funding and investment.

A strong voluntary and community sector supports the public sector to deliver services to communities and individuals. The council works closely with the sector including with community and neighbourhood groups through our community development and place-shaping role and aims to strengthen communities and develop a Basingstoke Deal with a range of improvement opportunities including safe, clean and green community improvement opportunities.

Pressure on financial resources, and building and maintaining resilience and capacity remain challenges for all partners and service providers locally and nationally. Recognising these pressures, and bringing together the right partners, skills and resources is key to maximising community, social, economic and environmental benefits of the council's work programmes and service delivery.

Basingstoke and Deane health and wellbeing partnership

Tackling homelessness together Basingstoke and Deane Social Inclusion Partnership

enterprise M3

Housing partnership

Basingstoke and Deane

Basingstoke Area Strategic Partnership
Working together for our communities

Basingstoke employment and skills zone

safer north hampshire

Basingstoke and Deane children, young people and families group

2.8 Commercialisation

To enable the council to continue to deliver the same very high level of resident satisfaction the council will focus on opportunities that may exist to become more commercial in its approach.

This will include defining what being commercial means for the council along with a full update of the Commercialisation Strategy working with managers to deliver cost effective services across the organisation.

Training and support will be provided to officers to ensure that they are more commercially aware and that this approach is extended into our contract management to build strong and resilient relationships with our suppliers and clients.

Through a commercialisation academy, opportunities to develop new income streams will be identified which support the Medium Term Financial Strategy, whilst continuing to drive efficiency in existing services.

The current key area of focus is to deliver a commercial vision and maximising income from existing and potential advertising revenue streams.

The income created from this activity should not only contribute to the MTFS but also finance the necessary structure required to deliver the outcomes of this work in the longer term.

Alongside this consideration is being given to further development of options for ‘trading services’ with other local authority partners.

3.1 Forecast financial position 2020/21 to 2023/24

The council's current forecast financial position is detailed below and includes the implications of the FLGFS 2020/21, implementation of the transformation agenda and will be reviewed each year of budget setting to reflect any new pressures and any revision to the Council Plan.

Where possible factors described in the preceding sections have been built into the financial modelling to ascertain the forecast financial position. Chart 6 below demonstrates the funding gap to 2023/24 as reported to Council in February 2020.

Chart 6 – Funding Gap 2020/21 to 2023/24

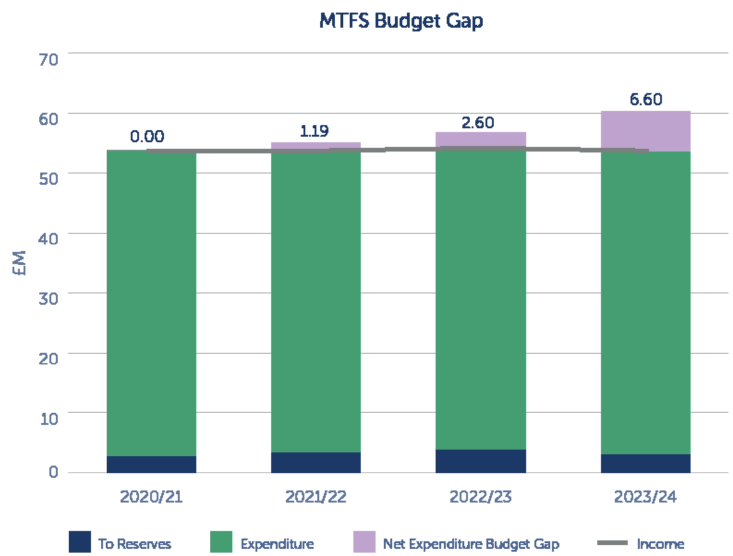


Table 2 below shows the summary position, with the detail being included in the following paragraphs and Annex 1.

This shows the council is required to make £6.60M savings over the period to 2023/24.

Table 2 – Summary of Savings Required (Budget Gap)

	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M
Budget Gap - Approved February 2019	**0.75**	**2.26**	**3.08**	**5.44**
Central items	(0.47)	(0.12)	(0.08)	0.43
Cabinet's New Revenue Budget Proposals:				
Identified Savings and additional income	(1.42)	(1.55)	(1.87)	(1.82)
Cost Pressures	0.64	0.66	0.70	0.66
Executive Commitments	0.85	0.40	0.40	0.40
Less funded from existing budgets and reserves	(0.35)	(0.10)	(0.10)	(0.10)
Revised Budget Gap – November 2019	**0.00**	**1.55**	**2.13**	**5.01**
MTFS Update Changes	0.00	(0.36)	0.47	1.59
Budget Gap – Approved February 2020	**0.00**	**1.19**	**2.60**	**6.60**

3.2 Pressures and executive commitments

Table 3 summarises the pressures that have been included in the medium term financial forecast. These are pressures that have been identified via the individual service areas through regular financial monitoring and budget setting.

Table 3 – Summary of Pressures

	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M
Portfolio				
Leader	0.01	0.05	0.05	0.05
Communities, Culture and Partnerships	0.04	0.04	0.04	0.04
Environment and Enforcement	0.41	0.42	0.46	0.46
Finance and Service Improvement	0.04	0.01	0.01	0.01
Planning, Infrastructure and Natural Environment	0.14	0.14	0.14	0.10
Total Cost Pressures 2020/21 and Future Years	**0.64**	**0.66**	**0.70**	**0.66**

In addition to the above pressures there are executive commitments summarised in Table 4.

Table 4 - Summary of Executive Commitments

	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M
Portfolio				
Communities, Culture and Partnerships	0.10	0.10	0.10	0.10
Borough Development and Improvement	0.40	0.20	0.20	0.20
Finance and Service Improvement	0.10	0.10	0.10	0.10
Regeneration and Property	0.25	0.00	0.00	0.00
Total Executive Commitments 2020/21 and Future Years	**0.85**	**0.40**	**0.40**	**0.40**
Less funded from existing budgets and reserves	(0.35)	(0.10)	(0.10)	(0.10)
Total Executive Commitments 2020/21 and Future Years	**0.50**	**0.30**	**0.30**	**0.30**

3.3 Savings and additional income

Table 5 summarises the savings and additional income changes identified as part of annual review of budgets.

Table 5 – Summary of Savings and Additional Income

	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M
Portfolio				
Leader	(0.01)	(0.01)	(0.01)	(0.01)
Communities, Culture and Partnerships	(0.01)	(0.01)	(0.01)	(0.01)
Borough Development and Improvement	(0.01)	(0.01)	(0.01)	(0.01)
Environment and Enforcement	(0.37)	(0.39)	(0.39)	(0.39)
Finance and Service Improvement	(0.53)	(0.56)	(0.83)	(0.78)
Homes and Families	(0.17)	(0.25)	(0.29)	(0.29)
Total Executive Commitments 2020/21 and Future Years	(0.32)	(0.32)	(0.33)	(0.33)
Total Savings and Additional Income 2020/21 and Future Years	**(1.42)**	**(1.55)**	**(1.87)**	**(1.82)**

Table 6 – Summary of total new budget proposals

	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M
Portfolio				
Leader	0.00	0.04	0.04	0.04
Communities, Culture and Partnerships	0.13	0.13	0.13	0.13
Borough Development and Improvement	0.39	0.19	0.19	0.19
Environment and Enforcement	0.04	0.03	0.07	0.07
Finance and Service Improvement	(0.39)	(0.45)	(0.72)	(0.67)
Homes and Families	(0.17)	(0.25)	(0.29)	(0.29)
Regeneration and Property	0.25	0.00	0.00	0.00
Planning, Infrastructure and Natural Environment	(0.18)	(0.18)	(0.19)	(0.23)
Total New Budget Proposals 2020/21 and Future Years	**0.07**	**(0.49)**	**(0.77)**	**(0.76)**

3.4 Key Financial Commitments

Waste Management Contract

With an annual value of approximately £3.8M the waste and recycling contract with Serco Group plc is the largest single service contract operated by the council. The council provides a weekly refuse collection service and fortnightly recycling and glass collection to over 75,000 households, which equates to approximately 1.9M collections per annum. The council recycling rate for the first half of 2019/20 was 30.88%. The contract is shared with Hart District Council and managed by a joint client team based at Hart. The contract commenced in October 2018 and runs for eight years with the option, subject to performance, of an eight year extension. It should be noted that the current client team arrangements are being reviewed.

Leisure Management Contract

The council has a contract with Basingstoke and Deane Community Leisure Trust and its agent Serco to manage the operation of the council's main leisure facilities of the Aquadrome, Tadley Pool and Gym and the Golf Centre. These facilities are managed in accordance with a service specification. The current five year contract runs until the end of 2022 and will generate net income to the council of approximately £0.77M over the contract period. As part of the agreement the council has agreed to invest capital of £1.5M to maintain and improve the facilities.

Manydown

Manydown is a 2,024 acre site at the western edge of Basingstoke, jointly owned by Basingstoke and Deane Borough Council and Hampshire County Council. An outline planning application is currently under consideration for the northern part of the site. Setting out the main principles for developing a thriving new garden community, the application is for up to 3,520 new homes, two primary schools, land for a secondary school, community facilities and a 250-acre country park. A planning decision is expected in spring 2020.

In February 2018 the councils selected nationally renowned master developer Urban&Civic plc, partnered with The Wellcome Trust, to join the councils to deliver their ambitious plans for an exemplar development of new homes on the northern part of Manydown. Work is now ongoing to finalise contracts to set out the working arrangements between the councils and Urban&Civic.

Following the finalisation of these contracts with Urban&Civic and the grant of outline planning consent for Manydown, the joint venture partnership between the councils and Urban&Civic will move forward to deliver the exciting vision for Manydown, embracing Garden Town principles.

3.5 Collection Fund

The assumptions made around council tax and NDR are reflected initially in the Collection Fund Account, which is a statutory account that records the collection and distribution of taxation.

The forecast position for the council's share of the Collection Fund, utilising the Key Assumptions is shown in Table 6 below.

Table 7 – Council Tax and NDR Retained Income

	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M
Council Tax	8.43	8.87	9.32	9.62
Business Rates	3.65	4.34	4.34	4.44
Total From Collection Fund	12.08	13.21	13.66	14.06

3.6 Capital

Planned capital expenditure and the associated financing is detailed within the Capital Programme Update and Capital Programme Strategy which is to be approved by Council in February 2020. The proposed programme for 2019/20 to 2023/24 totals £89.65M and is detailed in Annex 2, which also shows how the programme is financed.

The main service based capital projects are home improvement financial assistance (disabled facilities grants) of £7.06M Transformation Programme £6.11M, council owned asset management plan works of £4.84M, play area and open space enhancements of £4.57M, Local Infrastructure Fund schemes of £3.68M and improvements to sport and recreation schemes of £3.88M and community facilities of £2.29M.

Plans for the funding of the capital programme are also set out in the in the Capital Programme Update and Strategy. In summary the main sources of funding are capital receipts generated by the council, grants and revenue contributions. There is no external debt financing other than a £2.2M loan provided by the Enterprise M3 LEP as partnership funding for the regeneration of Basing View. All the revenue implications of the capital projects are built into the General Fund Estimates.

3.7 General fund balance

In accordance with the best practice guidance issued by CIPFA, the minimum level of general fund balances is reviewed and risk assessed on an annual basis.

The General Fund Balance is forecast to be £1.5M at the end of 2020/21. The required level of balance is determined by assessing the level of risk the council faces taking into account consideration both risk and affordability. This is currently assessed by the Executive Director of Finance and Resources (S151 Officer) at £1.5M. This equates to 4.61% of the Net Direct Cost of Services and is broadly comparable to other borough councils.

The General Fund Balance should only be used to fund one off revenue expenditure and is held to meet unforeseen expenditure. Use of the general fund balance should be prudent and is subject to the agreement of the S151 Officer.

3.8 Earmarked reserves

As well as maintaining a risk based General Fund balance the council can also set aside Earmarked Reserves for specific items.

Reserve balances are derived by taking a risk-based approach to assessing the council's key financial risks including reviewing key areas and assumptions within the estimates, realism of income targets, interest rate exposure, third party provider risks, and any other potential issues which may need to be taken into consideration.

The financial risks facing the council in the medium term are assessed within the MTFS. This includes assessing the risk of continuing reductions in central government funding; budget shortfalls that the council faces and overall local and national economic factors which can affect the financial stability of the council.

In light of the increasing level of risk and uncertainty identified within the MTFS and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. Each year as part of closing the accounts a view is taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside.

The most significant risk reserves are listed below:

Rent Risk Reserve - covers the risk of not achieving the required amount of rent income supporting the revenue budget.

Business Rates Risk Reserve - covers the increased risk and volatility from the impact of the localisation of business rates and council tax benefits.

Interest Risk Reserve - covers the risk of not achieving the required amount of interest income supporting the revenue budget.

Medium Term Financial Strategy (MTFS) Risk Reserve - covers the increased volatility and financial risk from legislative and statutory changes, economic pressures and delays or failing to achieve future years savings or income targets.

Insurance Reserve - provides funds to cover the risk of future payments to Municipal Mutual Insurance Company resulting from future claims and any uninsured losses.

3.9 CIPFA Resilience Index

In light of local authorities facing increasing financial pressures as demand for services increase alongside increased cost for services and cuts in funding the Chartered Institute of Public Finance and Accountancy (CIPFA) has introduced an authoritative measure of local authority financial resilience through the creation of a new index to aid a clearer understanding of areas of financial risk.

The index uses a range of indicators to associated with financial risk including the rate of depletion of resources, level of resources generally, demographic and social services pressures and level of borrowing.

The index is used as an indicator for whether an appropriate and robust independent challenge and support could be given to some councils on financial strategy and trajectories which is intended to provide challenge where needed so that appropriate action can be taken at a local level.

The index forms part of a broader strategy that CIPFA has for ensuring that S151 Officers have the support needed to achieve a balanced budget linked a concern that financial management capabilities and sharing good practice have at times been hollowed out by the repeated need to cut budgets.

Following consultation and early drafts of the Index for review, the Index was published in December 2019.

A review of this index for council has been undertaken and has also been reviewed against other Hampshire boroughs for comparative purposes. The findings have been incorporated in the Statement of the Section 151 Officer on the robustness of estimates and adequacy of reserves contained in the annual budget report.

3.10 CIPFA Financial Management Code

In conjunction, CIPFA has also published the new Financial Management Code, alongside the updated Prudential and Treasury Management Codes.

The CIPFA guidance states that:

The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and will provide assurance that authorities are managing resources effectively;

It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial Stability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management;

Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code with help strengthen the framework that surrounds financial decision making; and

By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements in their jurisdictions.

The code comes into effect from 2021/22 when local authorities must be able to demonstrate compliance with the code. This allows authorities the opportunity in 2020/21 to assess themselves against the code and to put in place the necessary practices to ensure they can demonstrate they are working towards compliance.

The code is comprehensive, and the review will need to involve a number of stakeholders to make a proper assessment of current compliance. It is anticipated that this will be completed by the end of July 2020 with an action plan as relevant to ensure that adequate steps are taken to be able to demonstrate compliance in 2021/22.

3.11 Addressing the budget gap

The council has a forecast budget gap of £6.60M up to the end of 2023/24. The approach to addressing this gap can be seen within a number of work programmes:

- growth and development opportunities within the borough;
- commercialisation – understanding what this means for the council and what opportunities are there for income generation;
- review of all services – are there efficiencies that can be achieved – with possible links major transformation projects such as Digital and Smarter Ways of Working;
- improved asset management;
- review of central activities such as treasury management;
- reviewing our policies around things such as council tax and use of reserves; and
- understanding our capital spend needs and how best to meet the cost of these.

3.12 Managing budgets and forecasts

In setting the annual budget and the MTFS the council will ensure potential risks are assessed and managed so that their impact is minimised or accounted for either via Contingencies, Balances or Earmarked Reserves as is necessary.

In year, the council will monitor its revenue and capital budgets on a monthly basis and report to Cabinet on a quarterly basis.

Accountability and responsibility

Whilst the responsibility lies with the Executive Director of Finance and Resources for reporting to Cabinet the financial position, the responsibility and accountability for the financial position of the services lies with the budget holder.

All budget holders are responsible for ensuring external income is maximised for their service and for seeking out new opportunities to generate income.

If the budget holder cannot resolve issues within their own service area budgets these should be dealt with by Executive Directors.

Where pressures are identified action plans are required to be agreed and implemented in year which look to address in year pressures and identify ongoing pressures that may need to be addressed as part of setting the budgets over the medium term.

Finance business partnering

It is intended to consider the implementation of a finance business partnering service as part of a wider review of Financial Services in order to support Executive Directors and managers in the financial management of their services.

The main focus of the finance business partner in supporting services will be to:

- look at a specific business problem and propose solutions based on research and insight;
- perform and analyse benchmarking against other areas and services to drive business decision making;
- work with business intelligence to understand activity and cost drivers;
- support services to look at the totality of investment against objectives;
- support services to focus on being sustainable;
- support services in developing business cases;
- work to better understand, manipulate and extract better outcomes from contracts - improving deliverables and forward planning procurement exercises;
- perform sensitivity analysis across whole systems to understand links between variables and support to make optimal interventions; and
- support with project managing change through greater involvement in strategic decision making.

This is currently in the early stages of development and will be informed by consultation with stakeholders in 2020/21.

3.13 Governance framework for updating and monitoring the medium term financial forecast model

The Medium Term Financial model is a dynamic model and as such will be changing constantly. It is anticipated that this model will be updated on a quarterly basis via the Quarterly Financial Monitoring Reports. A major review will be undertaken each year following the announcement of the council’s settlement funding, when a review of the financial model and assumptions will need to be undertaken.

Section 4: conclusion

This MTFS provides a robust framework for setting the budget for 2020/21 and ensuring the council remains in a sustainable financial position over the medium term. The current forecast position is still very challenging. The council has seen a significant reduction in its grant funding alongside increasing demand for services and funding reducing at an unprecedented rate. This has, however, given the opportunity for the council to reshape how it currently operates and interact with its customers and to develop its Council Plan priorities in the provision of services to the borough.

The 2020 Spending Review, implementation of the Fair Funding Review and changes to the Business Rate Retention Scheme are likely to present further challenges.

Annex 1 Medium Term Financial Forecast Summary Position

	Original Budget 2019/20 £M	Forecast Budget 2020/21 £M	Forecast Budget 2021/22 £M	Forecast Budget 2022/23 £M	Forecast Budget 2023/24 £M
Net direct cost of services					
Leader	0.24	0.22	0.22	0.23	0.22
Homes and Families	0.08	(0.13)	(0.18)	(0.22)	(0.22)
Planning, Infrastructure and Natural Environment	0.60	0.33	0.32	0.21	0.20
Communities, Culture and Partnerships	2.44	2.37	2.34	2.34	2.34
Finance and Service Improvement	3.02	1.57	1.26	1.42	3.35
Borough Development and Improvement	0.44	0.40	0.31	0.14	0.14
Environment and Enforcement	1.26	1.24	1.24	1.31	1.35
Regeneration and Property	(0.12)	0.15	(0.10)	(0.10)	(0.10)
Holding and Agency Accounts	(0.40)	(0.31)	(0.32)	(0.32)	(0.32)
Business Units	24.95	26.67	26.01	25.61	24.92
Net Inflation Allowances	Included	Included	0.59	1.12	1.68
Future Allowance For Growth	above	above	0.25	0.50	0.75
Net Direct Cost of Services	**32.51**	**32.51**	**31.94**	**32.24**	**34.31**

Annex 1 Medium Term Financial Forecast Summary Position (continued)

	Original Budget 2019/20 £M	Forecast Budget 2020/21 £M	Forecast Budget 2021/22 £M	Forecast Budget 2022/23 £M	Forecast Budget 2023/24 £M
Investment Property Trading Accounts	(14.33)	(14.64)	(15.13)	(15.48)	(15.13)
Property Investment Strategy Income	(1.24)	(1.91)	(2.30)	(2.30)	(2.30)
Interest and Investment Income	(3.04)	(3.56)	(3.23)	(3.29)	(3.09)
Council Tax Income (base)	(7.99)	(7.99)	(7.99)	(7.99)	(7.99)
Council Tax Growth	0.00	(0.11)	(0.22)	(0.34)	(0.45)
Council Tax £5 Increase	0.00	(0.33)	(0.66)	(0.99)	(1.18)
Collection Fund Surplus (council tax)	(0.12)	(0.05)	(0.05)	(0.05)	(0.05)
Retained Business Rates	(3.95)	(3.65)	(4.34)	(4.34)	(4.44)
Business Rates Deficit (previous years)	1.98	0.00	0.00	0.00	0.00
New Homes Bonus Grant	(2.13)	(3.08)	(1.38)	(0.88)	(0.00)
Other Government Grants	(0.56)	(0.59)	(0.39)	(0.33)	(0.27)
Corporate Income	**(31.38)**	**(35.91)**	**(35.69)**	**(35.99)**	**(34.90)**
Use of Revenue Budget to Finance Future Capital Spend	**0.00**	**0.00**	**1.50**	**2.50**	**4.00**
Net Expenditure (Surplus) / Deficit	**1.13**	**(3.40)**	**(2.25)**	**(1.25)**	**3.41**

Annex 1 Medium Term Financial Forecast Summary Position (continued)

	Original Budget 2019/20 £M	Forecast Budget 2020/21 £M	Forecast Budget 2021/22 £M	Forecast Budget 2022/23 £M	Forecast Budget 2023/24 £M
Contribution To / (From) Reserves:					
Revenue Reserves For Capital Purposes	(2.04)	(0.66)	(0.23)	0.07	0.07
Infrastructure Reserves	0.56	1.38	(0.11)	(0.22)	0.03
Earmarked Revenue Reserves	1.75	2.47	1.00	0.82	(0.65)
Risk Reserves	(1.40)	0.21	2.78	3.18	3.74
Total Contribution To (From) Reserves:	**(1.13)**	**3.40**	**3.44**	**3.85**	**3.19**
Future Savings Requirement	**0.00**	**0.00**	**1.19**	**2.60**	**6.60**
Council Tax Base (Band D properties)	65,769	66,647	67,497	68,347	69,197
Band D Council Tax	£121.42	£126.42	£131.42	£136.42	£139.01

Annex 2 Capital Programme By Portfolio 2019/20 to 2023/24

	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	Total £M
Communities, Culture and Partnerships	2.05	2.01	1.15	0.79	0.00	6.00
Borough Development and Improvement	0.83	0.80	1.13	1.17	0.05	3.98
Environment and Enforcement	1.03	1.24	0.74	0.50	0.50	4.01
Finance and Service Improvement	1.38	5.21	2.20	1.50	0.68	10.97
Regeneration and Property	19.23	26.36	3.26	2.30	0.07	51.22
Homes and Families	1.51	2.09	1.51	1.46	1.50	8.07
Planning, Infrastructure and Natural Environment	0.77	2.05	1.53	0.71	0.34	5.40
Proposed Capital Programme	**26.80**	**39.76**	**11.52**	**8.43**	**3.14**	**89.65**

Annex 2 Capital Programme Financing 2019/20 to 2023/24

	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	Total £M	%
Capital Receipts	17.93	17.61	3.98	2.60	1.14	43.26	48.26%
Capital Grants and Contributions	4.60	1.95	1.30	1.30	1.33	10.48	11.69%
S106 Developer Contributions	1.61	2.18	2.37	1.69	0.05	7.90	8.81%
RRCP - General/AMP	0.92	2.00	1.76	1.84	0.62	7.14	7.96%
RRCP - Green Initiatives	0.15	0.07	0.20	0.00	0.00	0.42	0.47%
RRCP - Local Infrastructure Fund Reserve	1.59	1.70	0.35	0.00	0.00	3.64	4.06%
Efficiency, Transformation and Digital Revenue Reserve	0.00	3.15	1.56	1.00	0.00	5.71	6.37%
Internal Borrowing (Invest To Grow Fund)	0.00	8.90	0.00	0.00	0.00	8.90	9.93%
External Borrowing (M3 LEP for Eli Lilly building)	0.00	2.20	0.00	0.00	0.00	2.20	2.45%
Total Use of Resources	**26.80**	**39.76**	**11.52**	**8.43**	**3.14**	**89.65**	**100.00%**

www.basingstoke.gov.uk | 01256 844844

customer.service@basingstoke.gov.uk

@BasingstokeGov

Sign up
for email updates
on council services,
news and events.

www.basingstoke.gov.uk/signup

WORLD LAND TRUST™

www.carbonbalancedpaper.com
CBP00022772808181917

If you need this information in a different format, for example large print, CD or braille, please contact the council.

©Basingstoke and Deane Borough Council 2020

recycle

34025_1119