

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**CABINET – 12 DECEMBER 2017**

Title of report	<b>DEVELOPING THE MEDIUM TERM FINANCIAL STRATEGY</b>
Key Decision	a) Financial No b) Community No
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Purpose of report	To provide Cabinet with the background to current issues to be evaluated as part of the Council's Medium Term Financial Strategy
Reason for Decision	Requirement of the budget setting process
Council Priorities	The budget assists the Council to achieve all its priorities.
Implications:	
Financial/Staff	As contained in the report.
Link to relevant CAT	None identified.
Risk Management	As contained within the report.
Equalities Impact Screening	None identified.
Human Rights	None identified.
Transformational Government	Not applicable
Comments of Head of Paid Service	Report is satisfactory
Comments of Deputy Section 151 Officer	As report author the report is satisfactory

Comments of Deputy Monitoring Officer	Report is satisfactory
Consultees	Corporate Leadership Team , 14 November 2017
Background papers	<a href="#">MTFS 2017 - 2020</a>
Recommendations	<b>CABINET IS RECOMMENDED TO NOTE THE FINANCIAL ISSUES FACING THE COUNCIL TO BE ADDRESSED THROUGH THE MEDIUM TERM FINANCIAL STRATEGY, DUE FOR APPROVAL BY CABINET AND COUNCIL IN FEBRUARY 2018</b>

## 1.0 INTRODUCTION

- 1.1 This report provides members with an outline of the current financial issues facing the Council to be addressed through development of the Medium Term Financial Strategy, and the new approach of this strategy in promoting self-sufficiency and sustaining growth.
- 1.2 The Strategy will present a high level assessment of the financial resources required to deliver the Council's strategic priorities and essential services over the following 10 years from April 2018 and will be presented to Cabinet and Council in February alongside the Council's 2018/19 budget for approval.
- 1.3 The Council's existing Medium Term Financial Strategy 2017 – 2020, was produced in October 2016. The document forecast the financial position of the Council's General Fund and Housing Revenue Account between 2017 and 2020. At this time, the HRA was forecast to deliver a balanced budget for this period, whilst the General Fund forecast included a predicted deficit of £372k in the 2019/20 year.

## 2.0 FUNDING AND FUTURE UNCERTAINTIES

- 2.1 The main sources of funding available to finance revenue expenditure (other than locally generated income such as planning or recycling income) are business rates, Council tax and government grants. For North West Leicestershire, the 2017/18 budgeted value of funding is as follows:

Revenue Support Grant	£572,000
New Homes Bonus	£2,840,000
Council Tax	£4,958,000
Transfer from Collection Fund	£285,000
Business Rates	£3,850,000
<b>Total Funding</b>	<b>£12,505,000</b>

- 2.2 In February 2016, the Council signed up to the Government's 4 year settlement for the period 2016/17 – 2019/20. The four year settlement was implemented to provide Local Government with greater certainty in respect of funding as funding reforms continue to progress to make councils more self-sufficient.

- 2.3 The Government has recently announced some detail regarding the shape of its Fair Funding Review and the date for implementation which is now delayed until 2020-21. The review determines the starting position of funding for local authorities based on an assessment of the relative level of needs and resources of all councils across England. The outcome of the review will determine the level of Revenue Support Grant and business rate tariffs and levies chargeable against locally collected business rate income.
- 2.4 The outcome of the Fair Funding Review will likely not be published until shortly before the provisional settlement at the end of 2019, which will create some pressure in respect of financial planning, should the outcome of the review be different to what the Council anticipates.
- 2.5 As part of the four year settlement, confirmation was received that the level of Revenue Support Grant would reduce to £235k in 2018/19 before being phased out entirely by 2019/20. Until such time that the Fair Funding review is completed and implemented, the future projections in respect of RSG include a contribution into the system from the Council. Our future medium term financial planning must take account of this negative contribution.
- 2.6 Under the current arrangements district councils are allocated 40% of increases and decreases in Business Rates. There is also a system of levies and safety nets which reduces our share of increases to 20% but at the same time provides a safety net which limits our losses to 7.5% of the baseline. The Council benefits from generating business rate income well above this baseline, meaning that a greater proportion of income is retained by the Authority and within Leicestershire through its contribution to the LLEP via the Leicester and Leicestershire Business Rates pool. The baseline will be reviewed as part of the Fair Funding review. The impact of the baseline being reset
- 2.7 The Government has previously announced that it intends for local authorities as a sector to retain 100% of business rates in exchange for taking on the full risks and rewards of the business base in the area and additional responsibilities from central government. The date originally announced for this transition was 2020, however, firm details have not yet been announced.
- 2.8 Currently, the Government is piloting 100% retention in several areas of England and in September 2017 announced that they were seeking to carry out another set of pilots in 2018/19. The Council, along with all counterparties in respect of Business Rates in Leicester and Leicestershire, entered a bid to undertake in a 1 year pilot. If successful, financial modelling undertaken by the Leicestershire Treasurer's Association (LTA) indicates that around £18.9m could be retained and shared across Leicestershire to be invested in Infrastructure and housing growth, town centre enhancements and financial sustainability. At the time of writing this report it is unknown as to whether the bid has been successful, however it is anticipated that the outcome of the process will be announced by the Department for Communities and Local Government in early December. If we are successful, the financial implications will be laid out in the provisional and final local government funding settlement announcements in December and February respectively. However it is important to note that under the proposed bid, the Council will be no worse off than it would have been was it not part of the pilot, and therefore the draft budgetary estimate as detailed within this report in respect of business rates income would not move adversely if the bid were successful.

- 2.9 Included within the Fair Funding review will be the resetting of the existing baseline. This baseline determines the level of business rates the Government expects a Local Authority to achieve, of which is then subject to a tariff or top up depending on its relative needs assessment. The impact of this is that if a Council benefits from business growth in its area after the setting of a baseline, the additional income is not subject to a tariff and instead subject to a levy, with special rules around levies if the authority is within a pool. As referred to in paragraph 4.6, the Council benefits from significant business rate growth above baseline. If plans go ahead to reset this baseline, the Council could see its business rate income drop by £1.7m per year from 2020/21.
- 2.10 New Homes Bonus (NHB) received is based on the average council tax band on each additional property built or on each long term empty property that is brought back into use. The funding is shared between district and county councils on an 80/20 ratio respectively. In April 2017 the Government introduced changes to the number of years for which the payments are made from 6 to 4. The Government has since consulted on further changes to the NHB scheme via the Local Government Finance Settlement Technical Consultation, proposing that which bonus payments are reduced for Local Authorities who make ineffective planning decisions. The consultation suggested two different mechanisms for this as well as seeking views on alternative mechanisms, however, since the outcome of this proposal will not be known until the announcement of the provisional settlement in mid-December, estimates for the 2018/19 year are based on the existing and known system.

### **3.0 LONG TERM PLANNING AND SELF SUFFICIENCY**

- 3.1 For 2018/19 and beyond, a new approach will encourage members to look beyond the current planning period, consider asset management via the incorporation of Capital into the plan and increase autonomy through commercial activity and, in turn, reduce the reliance on government grant.
- 3.2 The Medium Term Financial Plan will be considered in February each year alongside the budget for approval, and reviewed by members each July to compare outturn to forecasts. The Plan will project the financial position of the Council over a 10 year timeframe to enable members to plan longer term.
- 3.3 The Council currently budgets to receive Government grants to fund the running of its cost of services. Given the changing nature of Local Government finance, the uncertainty regarding Government funding and the Governments policy intentions regarding devolution, it is recommended that the Council seeks to remove its reliance upon Government grants in the future.
- 3.4 The Plan will therefore include 'Self Sufficiency' targets to reduce reliance on government grant. Specifically, a phased self-sufficiency target in respect of the New Homes Bonus grant will be built into the plan to safeguard the Council against the risk of the grant being reduced or the scheme being altered by Central Government in the future (see 2.10 above). This grant currently delivers £2.85m per year (at the 2017/18 level) and is included in the base budget to deliver the Council's ongoing services.
- 3.5 These self-sufficiency targets will ensure that the Council is able to make better use of Government grant in investing in initiatives to support local infrastructure and support

sustainable growth, in turn supporting the Council to achieve growth in council tax and business rates.

- 3.6 Any further shortfalls in funding will be identified through future savings targets and recommendations will be made to members in respect of remedial action to address these, including but not limited to the consideration of commercial approach.