

Medium Term Financial Plan

2019/20 – 2024/25



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PURPOSE OF THE MEDIUM TERM FINANCIAL PLAN

1. The Medium Term Financial Plan (MTFP) is a key element of the Council's annual planning process and **plays a significant part in enabling the delivery of the Council's Strategic Objectives.**
2. The MTFP sets out the Council's financial position for the next five years and **considers issues which impact the Council's finances**, including international, national and regional economic influences as well as local factors and the delivering of Strategic Priorities. This Plan also sets the base assumptions for setting the annual Budget, together with unavoidable service pressures and opportunities agreed by Cabinet which need to be taken into account.
3. The MTFP has been **developed with the Corporate Strategic Planning Manager, Lead Specialists and Operational Managers** in order to secure a forward looking approach and long term sustainability to deliver Strategic Objectives. An overarching MTFP is **not only good practice**, but is required to provide the strategic financial framework for the Council to enable delivery of key Strategic Priorities, the new Continuous Improvement Strategy, closer Budget scrutiny and management of wider financial pressures.
4. The **overall aim of the** MTFP is to provide a financial framework with long term prudence and stability to enable the delivery of the Council's key Strategic Objectives.

In addition the MTFP has **6 key objectives** to:

- Ensure the long term financial health of the Council;
- Ensure value for money for our residents;
- Set the parameters within which Budget and service planning takes place;

- Enable effective allocation of resources to deliver Strategic Priorities;
 - Enable a balanced and effective Budget can be set and set a base line for the Council to effectively financially manage its resources;
 - Ensure the long term security of borrowing and investments.
5. This MTFP aims to **support services** to move from the historical position of setting short-term annual Budgets to integrate strategic and service planning over the medium term. A sustainable MTFP is therefore **key to the effective delivery of the Council’s overall aims of achieving better outcomes for residents**. The resulting MTFP presents an overall commitment and framework to enable effective future service provision.
6. The diagram below aims to aid understanding of where the MTFP sits in relation to the Council’s overall strategic planning and other relating key strategies and plans.



Figure 1 – Strategic Structure

Performance Monitoring

7. To ensure the success of this Plan it has to be clearly articulated to Staff and Councillors and regularly monitored and reviewed. This is achieved through improved internal communication at key times of the year alongside formal Quarterly Performance Reporting to Cabinet, Policy & Performance Committee and Management Team.
8. Quarterly performance meetings hosted by Finance and the Performance & Governance Team are held with all service leads to review operational performance against service plans, understand the root cause of service pressures and identify opportunities. Budget variances, resourcing issues, risk and current position on Key Performance Indicators (KPIs) are reviewed, along with the current and future mitigations required to rectify any performance concerns. The conclusion of this process is a quarterly Performance and Financial Monitoring report prepared for Policy and Performance Scrutiny committee and Cabinet.

Executive Summary

9. The Plan underpins the Strategy to preserve the minimum level of General Fund Balance at 10% of net revenue expenditure which equates to approximately £1M. The Plan is based on prudent assessments of both income and expenditure, although there are a number of uncertainties discussed in this report which could have a significant impact on the final Budget position.
10. The Council is well-placed over the medium term to continue with current service levels for customers and a programme of both Housing and Community Infrastructure projects. The Council's continuing ambitions and leadership around environment, health and wellbeing, the economy and housing are represented in the MTFP. The challenge is to ensure that where the Council wants to pursue new initiatives that resources are released either through reduced spending or becoming more efficient. The Council recognises that some important further steps need to be taken to ensure the operations of the Council are as efficient as possible.
11. Over the Plan period the Council is presenting a secure financial position. Table 1 shows the overall net budget.

Budget Summary 2019/20 to 2022/23	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2024/25 £'000
Net continuing services	3,586	2,209	2,481	2,735	2,334	2,932
Other:						
External Interest Payable	6,000	5,531	5,532	5,812	6,720	7,729
External Interest Receivable	(3,450)	(3,271)	(1,827)	(586)	(511)	(561)
Contribs to / (from) Reserves	3,314	3,822	784	(1,221)	(1,796)	(3,166)
Capital Financing from Revenue	0	0	0	0	0	0
Minimum Revenue Provision	4,413	5,143	5,180	5,563	5,728	5,826
Depreciation	(3,014)	(3,014)	(3,014)	(3,014)	(3,014)	(3,014)
TOTAL COST	10,849	10,419	9,135	9,289	9,460	9,746
Transfer To/(From) General Fund	(995)	(0)	(1)	(1)	(1)	(1)
Total Budget Requirement	9,853	10,419	9,134	9,287	9,459	9,745
AVAILABLE FINANCE:						
Aggregate External Finance						
RSG	(128)	0	0	0	0	0
NDR	(3,714)	(4,147)	(2,662)	(2,715)	(2,759)	(2,845)
	(3,842)	(4,147)	(2,662)	(2,715)	(2,759)	(2,845)
Council Tax (Surplus)/Deficit	(72)	(72)	(72)	(72)	0	0
Council Tax - Base	(5,939)	(6,200)	(6,400)	(6,500)	(6,700)	(6,900)
Financed Budget Requirement	(9,853)	(10,419)	(9,134)	(9,287)	(9,459)	(9,745)
BUDGET DEFICIT/(SURPLUS)	0	0	0	0	0	0
GENERAL FUND BALANCES	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Balance at 1st April	(1,995)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Appropriations (to)/from Reserve	995	0	1	1	1	1
(Surplus)/'Deficit in Year	0	0	0	0	0	0
Balance at 31st March	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)

Table 1 – Overall Financial Position

12. This Financial Plan supports the Corporate Strategic Priorities as detailed below:



Environment (Greener Borough)

- The Council will respond to the Climate Change Emergency declared in July 2019. The Strategy and initial Action Plan will be reported to Council in November 2019.
- Increases in hereditaments in the Borough necessitates an increase in Direct Services budgets to ensure waste and recycling collections are completed efficiently.
- Air quality continues to be a public health concern nationally. Whilst the increase in the use of electric vehicles is expected to address this challenge in the longer term, over the MTFP period the Council is investing in new monitoring equipment (funding agreed in 2019/20) and staff to tackle this issue. This will also help address high levels of noise nuisance service requests.



Health and Wellbeing

- The Council will continue to provide a range of local 'safety-net' services which underpin basic health and wellbeing needs for residents and help meet the Council's Tackling Deprivation objective: housing and homelessness, Council Tax Benefit, Disability Facilities Grants to enable people to continue living in their own home.
- The Council will continue to provide and support high quality opportunities for leisure: cultural activity at the Point and Berry theatres, formal leisure provision at Places Leisure Eastleigh and other facilities, Itchen Valley and Lakeside Country Parks and the many neighbourhood-level open spaces the Council and the Borough's parish and town councils maintain for informal leisure use.



Economy

- The Council will continue to play its part in supporting business, by determining future accommodation to attract business to come or stay in the Borough.
- The Council will enlarge its role as 'Primary Authority' providing income-generating Environmental Health support to a number of businesses in Eastleigh and further afield.
- A programme of community projects in town centres will regenerate key sites and improved information about town centre constraints and opportunities will mean the Council is able to respond to the needs of the different town centre areas.



Housing

- The Council will continue to meet its ambitions to correct market failure in delivering homes, for market sale or rent and affordable homes to help meet this basic human need for a roof over one's head, to ease homelessness challenges and reduce excessive waits on the Hampshire Homechoice Register. The maintenance of a good supply of housing (currently over 6 years' supply) also helps defend the borough from inappropriate development.
- As Planning Authority the MTFP ensures the Council can work with developers efficiently to secure a steady stream of high quality developments. The Council will continue to oversee development of homes, communities and neighbourhoods and not just houses; the MTFP increases the specialist environmental and ecological capacity of the Council to add value to all planning permissions.

- The MTFP process, and in particular its prudent approach to Treasury Management and maximising the use of New Homes Bonus, supports the overall Housing Programme which will build on recent completions (e.g. Leah Gardens) to intervene where delivery has stalled and where opportunities arise, with an aspiration to deliver around 100 new market rental homes each year over the MTFP period – a significant contribution to the overall housing supply.
 - The Council’s Housing Programme not only promotes housing delivery overall, but also will continue to ensure the right mix of tenures to meet demand including the supply of affordable homes. The MTFP supports the Council’s innovative approach and consolidates the partnership of agencies that work together in the Aspect Building Communities Ltd vehicle.
13. The MTFP also supports the launch and delivery of a new Continuous Improvement Strategy to develop the ongoing transformation programme. The internal initiatives will be included in a comprehensive Organisational Action Plan so that the organisation is focused internally on efficiency improvements (see Continuous Improvement Strategy at paragraph 36). This Plan provides a stable base for services to deliver these Corporate Priorities by giving assurances on key issues and setting a clear allocation of resources.

Key Assumptions

14. There are a number of key assumptions included over the life of the Plan. These relate to figures where it is known there will be a change over time. The figures below highlight which key assumptions have been made (figures in brackets represent a reduction).

Budget Item	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Pay Award	2%	2%	2%	2%	2%	2%
Fees & Charges	3%	3%	3%	3%	3%	3%
Council Tax	1.1%	1%	1%	1%	1%	1%
Revenue Support Grant	(50%)	(100%)	-	-	-	-
Superannuation	13.9%	14.1%	14.1%	16.1%	16.1%	16.1%
Pension Past Service Costs	8.8%	3.9%	3.9%	3.9%	3.9%	3.9%
Contract Inflation	£100k	£100k	£100k	£100k	£100k	£100k
Consumer Price Index (CPI)	2%	2%	2%	2%	2%	2%

Table 2 – Summary of Key Assumptions

Council Tax

15. Council Tax income amounts to £6M for 2019/20 and was set in accordance with Council policy at an increase of 1.1% over 2018/19. This set the average Band D Council Tax at £129.52 for 2019/20.
16. The Council sets the actual increase in Council Tax at its Budget meeting in February. This Plan assumes that the Council will maintain its commitment of setting increases at 1% below inflation (CPI) for the life of this plan. The actual increases can be seen in Table 3 below. For information a 1% increase in Council Tax generates approximately £60,000 additional revenue for the Council.
17. Council Tax income will also increase depending on the growth in the Council Tax Base. This arises

principally from new hereditaments being built in the Borough. The estimated Tax base included within this Plan is detailed in Figure 2.

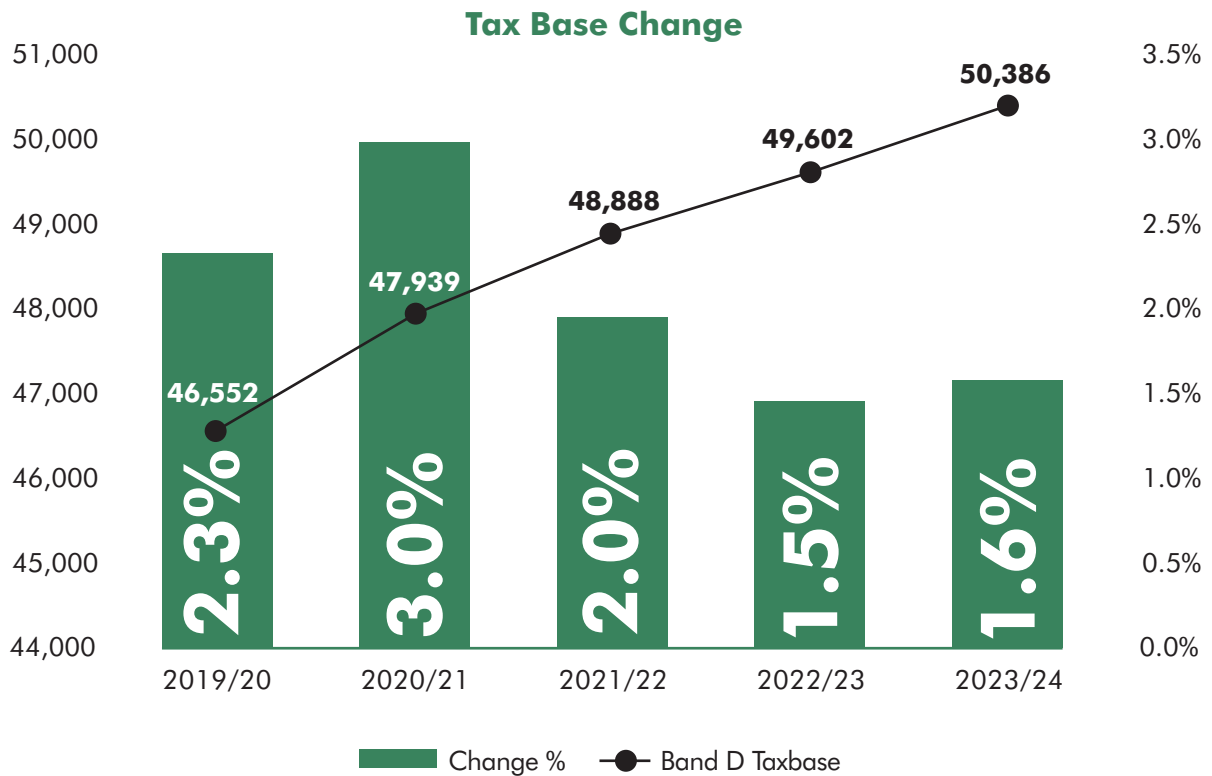


Figure 2 – Council Tax Base

18. The estimated Council Tax due to be received over the period, taking into account the percentage increase (1% below CPI) and projected increase in the tax base is shown below:

(£'000s)	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Council Tax	5,939	6,200	6,400	6,500	6,700	6,900

Table 3 – Council Tax Receipts

Government Funding

19. As previously reported, 2019/20 is the final year of the Revenue Support Grant with the Council receiving £128,000. The current Government funding forecast is as follows:

(£'000s)	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue Support Grant	128	-	-	-	-	-
Business Rates	3,714	4,147	2,662	2,715	2,759	2,845
Total	3,842	4,147	2,662	2,715	2,759	2,845

Table 4 – Government Funding

20. The Business Rate Retention scheme continues to offer little certainty over funding due to the complexities of the scheme, the significant sums involved and the need to provide against possible costs of future appeals. Although Central Government announced plans for local authorities to retain 75% of Business Rates income (the aim being to encourage economic growth as there is a direct financial benefit), this has not been implemented and there is still no clarity over the future scheme.
21. Councils are able to retain a proportion of their growth in Business Rates and will also be taking the risk for reductions in Business Rates, although there are 'safety net' arrangements in place to protect against very large reductions. The scheme, as it currently stands, means whilst the Council has no influence over the rateable value, rates charged or the percentage increase each year, it does retain almost half the risk from the volatile nature of the receipts. The one element that the local authority can influence is the economic growth within the region which may result in increased revenues from Business Rates. The Council plans to support and develop existing businesses in the Borough and take opportunities to attract new business to the Borough.
22. Businesses can appeal against the rateable value given and under the new scheme the Council carries approximately half the risk if values are reduced. Appeals can be backdated and as a consequence of this the Council has set aside a provision to deal with this element of the financial impact.
23. Previously the Plan has shown the Business Rate income decreasing in 2020/21. This was due to the anticipated re-base of the scheme announced by Government which will negate much of the growth in Business Rate income which councils have benefited from. The Government's Spending Review announced in September has slipped to 2021/22 which is reflected in the figures above.

Interest Rates and Borrowing

24. Current market uncertainty around the implication of leaving the European Union has meant that interest rates have remained low and are now estimated to remain lower for longer. Based on advice from the Council's Treasury Management Advisors (Arlingclose) the rate is now held at 0.75% for the entirety of their forecast up to September 2022. It has then been determined prudent to add a 0.25% increase every 6 months after that date. The estimated rates included with this Plan are shown below:

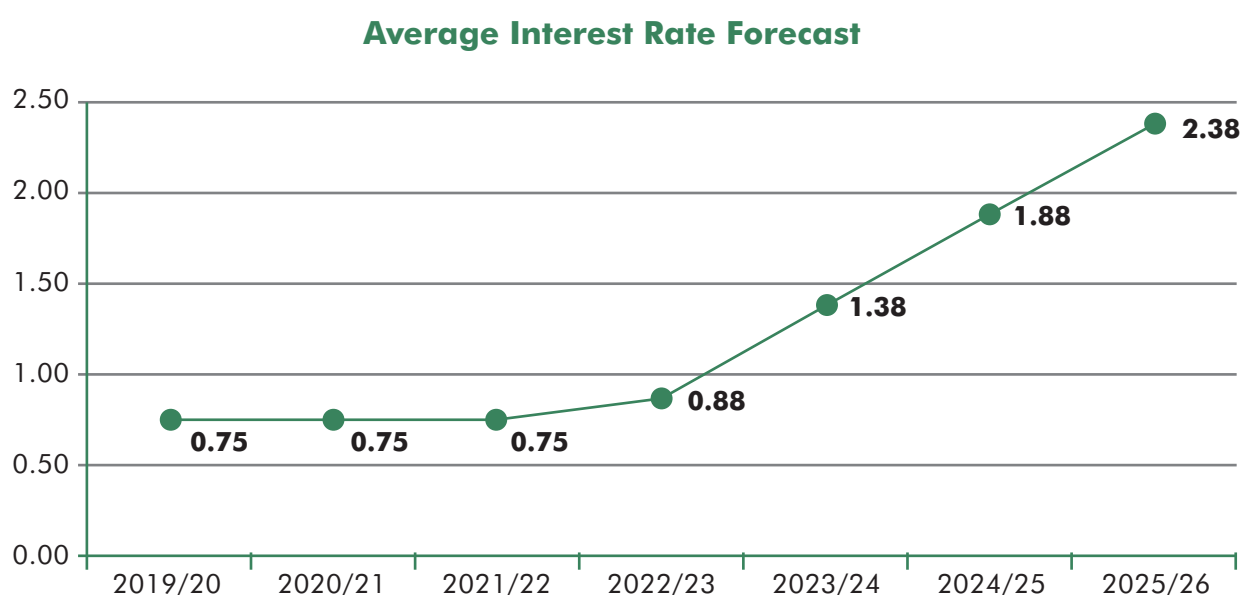


Figure 3 – Interest Rate Forecast

25. To minimise exposure to interest rate increases, business cases for future income generating capital projects are constructed using the long term rate at that time. Any surplus generated from the use of lower short term rates is set aside in the interest equalisation reserve. The aim of this reserve is to mitigate the effect of interest rate rises for continuing short term borrowing should rates increase more rapidly than forecast.
26. In April 2019 the Treasury Management Group unanimously approved switching £300M from short-term to long-term borrowing. This had the dual impact of securing a low long-term interest rate and reducing the level of exposure to variable interest rates. The figure 5 shows the breakdown of the Council’s borrowing portfolio before and after the debt restructure, which highlights the significantly reduced exposure to variable interest rates:

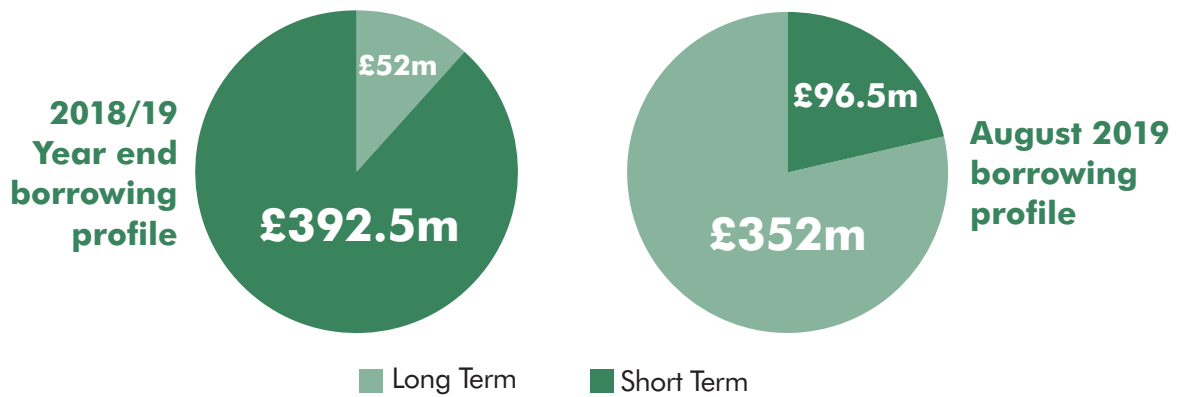


Figure 4 – Borrowing Portfolio Detail

27. There is no requirement to take additional long-term borrowing as rates are estimated to remain low and a number of schemes will generate a Capital Receipt during the period.

New Homes Bonus

28. Since 2010 the Council has received the New Homes Bonus Grant which is linked specifically to additional housing being built in the Borough. This Grant is earmarked for expenditure on affordable homes and community projects within the Community Investment Programme (CIP) and therefore has no direct revenue effect. The scheme is still under review by Government and therefore there is uncertainty around the future of the funding. Any commitment to funding projects from New Homes Bonus income is approved as part of the regular CIP reports to Cabinet and the forecast commitment (including any known changes to the scheme) is outlined in the table on the following page.

NEW HOMES BONUS	2011 - 2019	2019/20	2020/21- 23/24	Total
Affordable Housing Grant	-	-	5,840,000	5,840,000
Woodside Ave & Hatch Farm Housing	324,181	-	-	324,181
Bursledon GP Surgery	3,797,432	-	-	3,797,432
Hamble Library	200,000	-	-	200,000
Romsey Road Community Facilities	200,000	-	-	200,000
Lakeside Country Park	1,000,000	-	-	1,000,000
Hiltingbury Lakes Countryside Site	18,861	1,139	-	20,000
Ramalley Countryside Site	7,582	2,418	-	10,000
Fryern Pavilion	288,777	11,224	-	300,001
Hiltingbury Pavilion & Cycle Path	382,000	20,826	-	402,826
Hiltingbury Tennis Courts	37,065	-	-	37,065
Ramalley Guides Grant	41,000	-	-	41,000
Ramalley Guides HQ/Scout Hall	98,592	45,517	45,000	189,109
Wildern Leisure Centre - Swimming Pool	-	800,000	115,000	915,000
Places Leisure Centre	3,751,639	-	-	3,751,639
St Johns Phase 2 & 3 Affordable Housing	-	700,000	-	700,000
Town Centre Affordable Housing Sites	-	960,000	-	960,000
Restoration of Hiltingbury Lakes	-	62,500	62,500	125,000
Hedge End/Horton Heath Cycle Route	-	40,000	-	40,000
IVCP Highwood Barn	-	120,000	-	120,000
Bishopstoke Community Facilities	-	-	1,000,000	1,000,000
Road Infrastructure	-	-	900,000	900,000
New Homes Review	27,850	-	-	27,850
TOTAL ALLOCATED	10,174,979	2,763,624	7,962,500	20,901,103

Table 5 – New Homes Bonus

Reserves

29. Due to the nature of the activity a number of services represent a financial risk to the Council. One way to manage these risks is by using reserves which will fund future costs should they arise. A particular example of this would be the Council's Property Portfolio where the risk of void periods and maintenance obligations exist. Funds are set aside annually from the income generated to fund any potential future costs.

30. The current balance of earmarked reserves is approximately £18.6M and these are reviewed annually to ensure they remain necessary and appropriate. The balance can be classified into the main areas below:

Estimated reserves balance at 31 March 2020

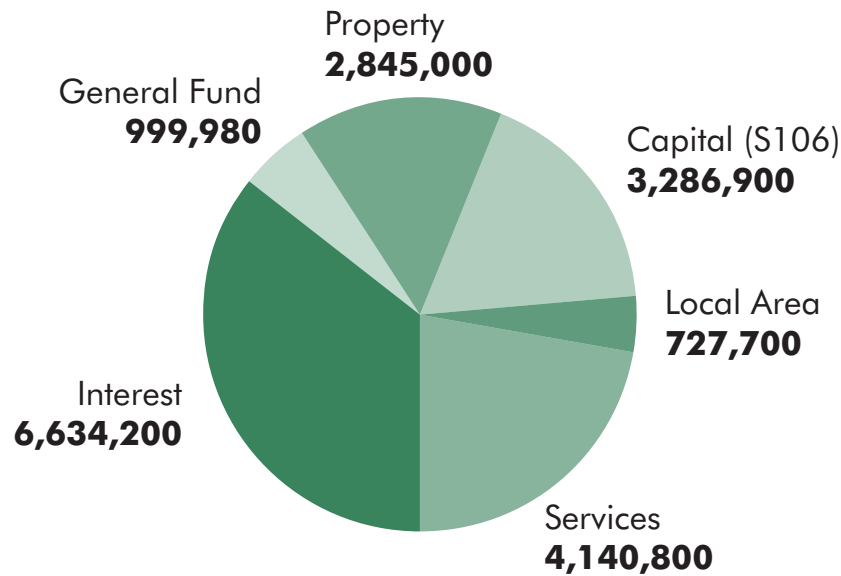


Figure 5 – Reserve Balances

Service Pressures and Opportunities

31. As highlighted in Table 2 there are a number of issues which are corporately funded as part of the wider Budget, these include:

- Corporate Fees & Charges
- National Pay Award & Living Wage
- Pension Costs
- Contract Inflation

32. As part of the Quarterly Performance Process both financial and operational performance issues are monitored throughout the financial year with the key pressures and opportunities being included as part of this Plan.

33. The key pressures included in this plan are (note these figures only indicate the annual revenue Budget impacts unless stated):

- £560K impact of Hampshire County Councils Waste and Recycling review. This includes the reduction of recycling credits, material sales income and the increased cost of contaminated waste.
- £100K for an extra waste round to recognise the increased demand from additional housing.
- £150K to support the Climate Change and Environment emergency for Pollution, Biodiversity and Trees.
- £60K for fly-tipping enforcement and education.

- Up to £40K to recognise the 100% increase in External Audit fees.
 - additional £1.2M over three years included to support the Continuous Improvement Strategy.
34. Along with pressures, Service Leads also identify opportunities and savings and the key elements included in this Plan are:
- £1.5M gross income from housing.
 - £150K reduced Treasury Management costs from the revised Treasury Management Policy.
 - £550K increase rental yields from the existing Property Portfolio.
 - £30K from reduced costs of the Liquor Licencing Programme.

Continuous Improvement Strategy

35. This Financial Plan is based on an additional savings requirement. As the 2019/20 Base Budget includes a saving requirement of £200,000 the full saving requirement is shown below (figure shown is cumulative):

(£'000s)	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Council Tax	200	500	900	1,500	2,500	2,500

Table 5 – Total Saving Requirement

36. Up to 2020/21 the target is likely to be accommodated within existing service underspends and natural business improvements, so does not therefore represent a significant risk to this Plan. However, all Services and Staff need to make a cultural change towards delivery of this.
37. This Strategy is being developed as part of the ongoing Annual Cycle with a new Strategy being presented to Cabinet for approval by the Chief Financial Officer along with the Budget in February 2020. Three key delivery areas have been identified to focus the Strategy;
- **Commercial Development** – This will conduct a commercial review of all services seeking to ensure that they offer value for money to residents and run in a business like way.
 - **Service Improvement** – Led by the a new Continuous Improvement Board, the aim of this function is to identify areas for process and service improvement which will lead to financial and non-financial benefit and make the organisation operate more efficiently, whilst providing a better service to customers. This will be the key focus area for improvements across the Council.
 - **Strategic Realignment** – Future Eastleigh has changed the way the Council operates to ensure it focuses resources on its key strategic goals. This process will ensure regular review of priorities and align service spend to corporate objectives.

Key Risks

38. As with any longer term plan there is a degree of risk and uncertainty, arising from both internal and external factors, which could have a significant impact on the key assumptions made within the MTFP. It is important that the key risks which 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.
39. Factors that can have a material effect on the financial position of the Council include:
- Changes in statutory functions;
 - Changes in Council priorities; including climate change
 - Level of future pay awards, National Living Wage and general inflation;
 - Services pressures such as changes in funding or increased demand;
 - Business Rates volatility and uncertainty;
 - Changes to interest rates;
 - Non achievement of Efficiency Plans;
 - Changes in legislation;
 - Changes in the economy;
 - Impact of exiting the European Union;
 - Impact from National Politics and
 - Changes in partnership across the public sector e.g. agreements with Hampshire County Council.
40. 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:
- **Financial Risk** – the majority of the future years' Plan is based on a series of assumptions and estimates, the further into the future you look the higher the risk that these assumptions are inaccurate.
 - **Political Risk** – The Government has provided more certainty about Government grant levels. However, with the announced Spending Review and Fair Funding Review not happening there still leaves much uncertainty for the future. In addition the outcome of potentially leaving the European Union in October 2019 is unknown and the outcome of this could have a significant impact on pressures on services.
 - **Treasury Risk** – The MTFP is based on a forecast interest rates based on best estimates provided by Advisors. However, a change to this rate could lead to a change to Interest Rate Reserves or potentially a debt restructure.
 - **Continuous Improvement Strategy** – The MTFP is based on achieving a £2.5M ongoing efficiency savings by 2024/25. This places a significant burden on the way services are delivered. Whilst considered achievable in the context of the overall Budget and the way the Council is strategically delivering this saving a degree of risk will always exist as many external factors will impact services during this time.

Conclusion

41. The MTFP is a significant strategic plan that provides the resourcing framework to enable the Council to further its mission: 'Supporting Communities and Improving Lives'. The Plan supports internal improvements the Council can achieve which will then lead to improved service provision for the Borough's residents and businesses. The Plan gives a clear message to residents of financial competence and prudence from their Council, when many other councils are known to be experiencing greater financial challenges. The MTFP and in particular, the forthcoming Continuous Improvement Strategy sets challenging ambitions for the organisation to continue to evolve and change so that the Council can continue to deliver efficient and high quality services for residents in line with the Corporate Plan.