MEDIUM TERM FINANCIAL PLAN

The Medium Term Financial Plan for 2017/18 to 2020/21 was presented to Policy & Finance on 29 June 2017. This document seeks to refresh and provide an update on assumptions for future income, expenditure and financing forecasts for 2019/20 to 2022/23.

1.1 Financial Projections

High level budget projections have been produced for the next four year period to 2022/23. The table below shows the current position assuming that the Council Tax at average Band D will increase at the same rate as for the last three financial years (i.e 1.94%).

Table 1

	2019/20 £000	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
Net Service Expenditure (less capital charges)	11,130	11,034	11,269	11,571
Total Other Expenditure	1,791	1,591	1,828	1,871
Total Expenditure	12,921	12,625	13,097	13,442
Total Business Rates	(6,952)	(4,660)	(4,741)	(4,815)
Council Tax	(6,729)	(6,946)	(7,167)	(7,397)
Other Grants	(120)	0	0	0
Conts (To)/ From Reserves	(880)	1,019	1,189	1,230

A Council Tax freeze during 2019/20 would result in an additional £0.128m contribution from reserves in that year. This would also mean the shortfalls in the further three financial years increase by £0.133m in 2020/21, £0.137m in 2021/22 and £0.141m in 2022/23.

1.2 Financial Landscape

The year 2019/20 is the final year of the four year financial settlement provided by the Government. This settlement was awarded on publishing an efficiency strategy during October 2016 and gave some limited certainty over funding for the four year period from 2016/17. This has assisted with future planning of funding up to 2019/20, but looking further than that is still difficult due to a lack of clarity nationally around Local Government Funding. With the end of the current spending review period due in 2020 together with the reform of the Business Rates retention system and the fair funding review, estimates of funding are uncertain.

1.3 Fair Funding Review

Funding baselines, as determined by the Local Government Settlement, are based upon an assessment of Local Authorities' relative need and resources. The methodology has been in place for over 10 years and the Government feels that reform is needed to rebalance where funding is allocated. A consultation paper was issued during December seeking views on the approach to measuring the relative needs and resources of local authorities which will determine new baseline funding allocations for local authorities in England in 2020-21.

The consultation:

- Proposed to simplify the assessment of local authorities' relative needs
- Considered the type of adjustment that will be made to an authority's relative needs assessment to take account of the relative resources available to them to fund local services
- Proposed a set of principles that will be used to design potential transitional arrangements and examines how the baseline for the purposes of transition should be established.

The current funding formula is too complicated and, furthermore, the distribution of funding within it is too weighted towards deprivation. A flatter funding formula which is simpler, more transparent and easier to administer and update is necessary to support a fairer funding distribution. Analyses undertaken by MHCLG, shows that deprivation is only capable of explaining a very small proportion of overall spending within the formula. Proposals to distribute more funding using population is supported by evidence, for instance services such as waste service and planning; there is no direct correlation between additional costs for running these services and deprivation.

The approach will result in winners and losers. The Government has recognised that the change in formula could result in significant changes to the baseline funding of some Authorities. It therefore intends to introduce transitional arrangements that are fair, transparent and easily understood so that budgetary impacts can be accommodated. Transitional arrangements will unwind over time.

This is important as the Council's baseline influences the amount of business rates income it can retain. From 2020/21 and onwards 40% of the Council's funding is expected to be attributable to Business Rates.

1.4 Retained Business Rates

The changes brought by the Localism of Business Rates now mean that Local Authorities are incentivised to promote economic growth in their area. From 1st April 2013, Local Authorities can retain a share of the net income that they receive in Business Rates as funding to meet the cost of service provision. Promoting economic growth and inward investment to the District is key to ensuring sustainability going forward. With the announcement of the new Comprehensive Spending Review from 2020 (mentioned above) any reset in the baseline may impact the growth already achieved. It is therefore important to monitor this situation and continue the good work already achieved.

The Government has announced various policy decisions around Business Rates which will impact on the total amount of income the Council will be entitled to:-

- Business Rates will now increase in line with CPI as opposed to RPI, which means that rates should increase at a lower rate.
- Business Rates will be cut by one-third for businesses with a rateable value of less than £51,000 for two years from April 2019.

Section 31 grants are the Governments way of compensating Local Authorities for the policy decisions that they take which impact on the total amount of business rates income they can collect. For 2019/20 it is estimated that the Council will receive £1.823m in Section 31 grants.

There are a number of risks that could affect the amount of Business Rate income collected and as such reduce the anticipated amount of Retained Business Rate income. The most significant risks are:

- Unpredictable increases in exemptions and reliefs due to different property usage
- Successful Business Rate appeals dating back to earlier years
- Slower than anticipated local economic growth
- CPI increases on the tariff being higher than local economic growth
- Uncollectable debts as a result of worsening economic conditions.

A national business rates revaluation took effect from 1 April 2017, which increased the rateable value list by £10,346,780 for the 2017/18 financial year. Ratepayers with the largest increases in rateable value were:- Center Parcs (£1,975,000) and Sherwood Pines Forest Park (£417,000. The impact of this saw the total rateable value increase from £92,949,337 to £103,296,117. The anticipated rateable value for 1 April 2019 for the 2019/20 financial year stands at £106,486,370 which includes new business rated hereditaments and altered assessments of rateable value post 1 April 2017.

The Council currently has 88 appeals that have been lodged by Businesses with the VOA outstanding. Should these be successful they would reduce the rateable value down by £2,338,370. These appeals relate to the 2010 ratings list for which they are backdated to the 1 April 2010. Should these appeals be successfully settled, there will be a one off impact of the settling of the appeal, which will be funded by the NNDR appeals provision on the Councils' Balance Sheet, but there will be no future impact, as the properties are now rated by the 2017 rateable value listing. The one off impact of the settled appeals would amount to £4,046,260.

There are currently 6 challenges against the 2017 list with a combined RV potential reduction of £13,878. Any successful challenges, or should these get to appeal stage and be successful, this will have an impact on the finances of the Council going forward. As described, currently there are limited numbers of checks, challenges and appeals against the 2017 list, but this does not mean that a greater number of these will not come through at some point. The check and challenge process allows businesses to check the facts held about their property and view their valuation details before deciding whether to challenge their valuation. This minimises uncertainty ensuring businesses reach a resolution quicker. As businesses get to grips with this new process, it is anticipated that these will come through at some point in the future.

The Council currently has £7,128,981 set aside as a provision in order to mitigate the impact of these appeals, both against the 2010 list and the 2017 list. The level of this provision has been calculated using assistance from independent external advice from Analyse Local. Should any of the appeals not crystallise, parts of this can be released back into the collection fund to be distributed back to the Council and its preceptors.

A consultation paper around retained Business Rates was issued during December 2019 in order to seek views on the reform of the Business Rates retention system. This consultation sought views regarding the proposed changes to the system post 2019/20. The current indications are that a full baseline reset will occur on 1[t] April 2020 which will reset the amount of funding authorities will receive from the business rates system. This is expected to be cash neutral nationally; hence authorities that have enjoyed growth within the current system potentially could lose this growth in order to be passported to those authorities with greater need for resourcing.

These assumptions have been modelled into the current figures provided within this MTFP but are subject to high volatility as Ministers continue to make decisions around funding. The outcome of funding is likely to be a combination of the Comprehensive Spending Review (due in 2019), the implications of the Fair Funding Review and Business Rates reform. Ministers will need to ensure that the financial viability of authorities or classes of authority is managed alongside ensure the change is manageable and that they are able to achieve parliamentary approval.

1.5 Council Tax

The Local Government Finance Settlement amended the principles before which a referendum would be called for the 2018/19 financial year. A Shire District may levy a 2.99% or £5 (whichever is higher), increase on the prior year's Council Tax precept prior to a referendum being called. This principle stays the same for the 2019/20 financial year.

Members agreed to an increase in average Band D Council Tax of 1.94% through 2016/17, 2017/18 and also 2018/19. For the purposes of the MTFP, it has been assumed that Council will continue to increase average Band D council tax by 1.94% and therefore this rate of increase has been modelled throughout the duration of this MTFP.

The Council's tax base is the number of properties at the average Band D equivalent level within the district. This is the measure that the Council uses to calculate the amount of Council Tax that the Council can receive (multiplied by the Band D rate). The more properties that are built within the district increases the amount of Council Tax revenue that the Council even if a Council Tax freeze was announced. The increase in tax base used to calculate the 2019/20 Council Tax requirement was 1.18% which was the actual tax base calculated in December 2018. The average over the previous two year period has been used to forecast growth in the tax base each year after that.

Localised Council Tax Support replaced Council Tax Benefit which was abolished by the Government with effect from 1 April 2013. Local Authorities were required to design local schemes which offered discounts to the council tax bill – any discount awarded is now incorporated within the Council's taxbase.

Initially the Government awarded a grant to local authorities to support local schemes however this was only separately identified for the 2013 financial year. The grant was set at a level that was a reduction of 10% on the forecast cost of Council Tax benefit for 2013/14. As this was only identifiable separately for the 2013/14 financial year, this funding was assumed to be incorporated within Revenue Support Grant from the 2014/15 financial year. Full Council must approve, each year, prior to 31 January, the Local Council Tax Support scheme.

Our local scheme requires working age council tax payers to contribute at least 20% towards their council tax bill. Pension age council taxpayers can continue to receive up to a 100% discount to their council tax bill dependent upon their financial circumstances.

Since 2013 the scheme has annually cost approximately £6.4m (of which 9.14% relates to Newark and Sherwood District Council equivalent to approximately £585k per annum) however this could increase / decrease according to the current economic climate and the impact this can have on household finances.

1.6 New Homes Bonus

New Homes Bonus was the subject of a consultation exercise during 2017, which sought to change the methodology of calculation in order to penalise Councils who had high levels of residential planning decisions overturned at appeal. The Government decided not to follow through on this consultation and the award basis is unchanged from 2017/18.

Awards are based on a four year allocation period above a growth of 0.4% of the tax base of the Authority.

Projections over the duration of this MTFP have been calculated using the assumptions from the increase in tax base used to calculate the 2018/19 Council Tax. With the proposed developments at various sites within the District as well as the Development Company, this is considered a prudent approach.

Assumptions around New Homes Bonus are that post the Spending Review in 2020 only legacy payments will be received and that the grant will disappear from 2023/24.

The Council is in a good financial position in that it does not need to budget to use the New Homes Bonus for core funding of services and other revenue costs. As this funding is not ring fenced to expenditure of either Revenue or Capital nature it can be utilised for either of these. The amounts forecast for the term of the MTFP are:

Table 2

Year	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
2016/17	402			
2017/18	390	390		
2018/19	379	379	379	
2019/20	409	409	409	409
Total	**1,580**	**1,178**	**788**	**409**

The Council has not previously budgeted for this income, and as such does not need to use this to support its service and non-service revenue expenditure. The decision was taken to include this within the 2018/19 budget presented to Council on the 8th March 2018 in order to improve transparency. This was then shown to be moved to reserves on the Balance Sheet. This money has been previously used in order to fund key regeneration projects and this is proposed to continue. Should this funding cease to exist post the Governments Comprehensive Spending Review in 2020, this will be a large loss to the Council, as Capital resources are scarce, meaning that any future infrastructure projects may need to seek third party investment or to use borrowing.

Due to this, it is proposed to set a strategy for use of these funds. With scarce Capital resources (as seen in section 1.12), there are only finite sources of these funds: by selling an asset, receiving external funding or financing from borrowing (which ultimately requires financing through revenue), this document proposes to allocate 50% of any receipt from New Homes Bonus for Capital financing of short life assets (where asset lives are less than 10 years).

1.7 Income from Fees and Charges

The generation of income from fees and charges is an essential element of the Council's revenue budget. The overall level of fees and charges is substantially affected by legislation with many chargeable services prevented from recovering more than their costs. The objective therefore is where services are chargeable (and the level of charges is determined by the Council) then they should achieve break-even. Opportunities will also be explored for premium pricing for discretionary services where the Council is able to deliver variable levels of service. The total income from fees and charges included in the projections is as follows (the figures for 2016/17 have been included for comparison purposes):

Table 3

	2017/18 (Original Budget) £	**2017/18 (Revised Budget) £**	**2017/18 (actual) £**	**2018/19 (budget) £**	**2018/19 (Revised Budget) £**	**2019/20 (budget) £**
Fees & Charges	4,358,790	4,662,055	4,890,938	4,445,750	4,716,299	4,676,660

The Commercial Plan set out the strategy the Council will take regarding discretionary fees and charges. These are currently being reviewed by Business Managers, with the Corporate Projects Team looking at further income streams that the Council could consider.

The reduction in initial budget for 2018/19 compared with the 2017/18 actual relates to:

- Heritage, Culture and Visitors: reduction of £157k relating to additional shows compared to the budget for the new year. Much of this additional income would have been paid to promoters and artists, hence there is also a reduction in costs in Agency repayments and Artists fees of £110k when comparing the 2017/18 outturn against 2018/19 initial budget.
- Development Management: Due to the high volatility in planning applications, the income from this service is extremely difficult to predict. Large planning applications such as Land North and East of existing Fernwood Development and Land at Fernwood Meadows South were received during the 2017/18 financial year, which skewed the total income. These large applications do not happen each year and hence a more prudent approach to budgeting for income has been adopted which smooths out the spikes.
- Domestic Refuse collection: Income from replacement bins had never been budgeted for, which included the 2018/19 initial budget, albeit £25k of income was received. The waste disposal element of trade refuse charge was also £15k over the expected amount for the 2018/19 financial year, albeit a proportion of this income is passported through the Notts County Council upon disposal.
- Car Parking: Budgeted car parking income in Newark was also lower than actual receipts by £30k.

The reduction in initial budget for 2019/20 compared with the revised budget for 2018/19 relates to:

- Council Tax: Summons income is expected to fall by £60k as officers make every effort to make payment arrangements with customers to avoid court action where necessary and reducing increasing their debt.

- Development Management: The budget for 2019/20 has been based on the 2018/19 initial budget and has been increased by £10k from this position. The reduction of £55k mainly relates to the smoothing of income in relation to large planning applications.
- CCTV: The budget for 2019/20 has been removed, hence a reduction from the revised 2018/19 budget of £55k. This is as this income related to income from other Council Business Units. This is therefore to be treated as an interdepartmental recharge, rather than expressed as fee and charge income.
- Domestic Refuse collection: £53k additional income has been included which relates to both the additional income due to bringing back the administration of the garden waste service from Rushcliffe and Mansfield, and an estimate of growth in the customer base. An allowance of an additional £41k has been made in relation to the waste disposal element of the trade waste charge based on experience, albeit this is offset by additional budgeted expenditure to Notts County Council for the disposal of this.

1.8 Reserves and Balances

The Local Government Act 2003 requires all Councils to maintain adequate balances, reserves and provisions to help ensure that their activities are sustainable. The Council holds General Fund balances to ensure that it has sufficient funds to manage its day to day finances, to smooth out the peaks and troughs of expenditure through and to enable the Council's financial position to remain secure in the event of unforeseen circumstances.

When setting its Budget, the Council must have regard to level of reserves needed to mitigate against both known and unknown risks and issues. A risk assessment of the General Fund Balances informs the Council's Section 151 Officer's view of the adequacy of reserves to provide assurance to the Budget.

Each year the Section 151 Officer of a local authority is required undersection 26 of the Local Government Act 2005 to review the amount of reserves and provisions that the authority holds. This review is carried out primarily to ensure that reserves and provisions are not allowed to be "run down" to an imprudent level, taking into account their purpose and likely use. In undertaking this review it is also necessary to ensure that amounts do not become over provided for. With this in mind, a review of reserves held by the Council has been undertaken and the movements in earmarked reserves and General Fund balances contained in the forecasts for each year have been influenced by this review.

Best practice guidance from CIPFA states that the General Fund balance may be between 5% and 100% of net expenditure. The minimum prudent level of reserves was set at 15% of the Net Budget Requirement at the meeting of Policy and Finance on 21st September 2017. As a percentage of the Net Budget Requirement can constantly change, it is proposed to amend this policy to reflect a static balance which would be reviewed annually to ensure its prudency. It is therefore proposed to adopt a balance of £1,500,000 as a General Fund balance to mitigate unexpected and therefore unbudgeted expenditure.

The Council also holds reserves for specific areas of expenditure. Each reserve has a specific purpose and is internally ring fenced for that purpose. They are subject to annual review by the Section 151 Officer as part of the budget process and if no longer required then are redirected for other purposes.

The balances and reserves that the Council held as at 1 April 2018:

Table 5

General Fund	Amount as at 1 April 2018	Description
Balances:		
General Fund Balance	£1,736,863	General Fund Balance
Usable Reserves:		
Investment Realisation Fund	£91,890	Provide a reserve against possible future losses on external investments
Election Expenses Fund	£220,325	Provide a cushion for the election expenses
Insurance Fund	£398,456	
Repairs and Renewals Fund	£2,411,187	Smooth out the charges levied to the general fund by providing for future repairs and renewals
Building Control Surplus	-£7,077	Statutory account to be held to ensure surplus is ringfenced to Building Control
Museum Purchases Fund	£11,414	Partly a Bequest from the Nicholson estate
Training Provision	£152,182	To fund any additional training needs and apprentice costs
Community Safety Fund	£264,256	To fund the cost of the Community Safety Partnership
Restructuring and Pay	£100,000	
Court Costs	£59,769	To fund any unplanned court costs
Change/Capital Fund	£9,045,375	To enable and facilitate the changing working environment
Planning Costs Fund	£270,145	To fund any unplanned planning enquiries or appeals
Unlawful Occupation of Land	£9,250	To fund any costs associated with ad hoc unlawful occupation of land issues
Fly Tipping Fund	£100,000	To fund any fly tipping issues that the revenue budget cannot contain
Homelessness Fund	£327,724	To fund initiatives provided by the Housing Options Team
Fuel and Energy Reserve	£70,142	
Refuse Bin Purchase	£15,000	To fund any bin purchases exceeding the existing revenue budget provision
Energy & Home Support Reserve	£116,580	To assist vulnerable residents with heating/boiler issues
Growth & Prosperity Fund	£1,799,909	Think Big loans fund for providing loans to small businesses
Warm Homes on Prescription	£110,849	Grant funded income relating to schemes to reduce fuel poverty
Welfare Reform	£25,774	
Development Company	£4,000,000	To finance the equity funding needed to set up the development company
Management Carry forwards	£224,268	Management carry forward requests to be spent during 2018/19
Emergency Planning Reserve	£50,000	To replenish emergency planning stocks

Unconditional Grants Unapplied:		
Revenue Grants Unapplied	£185,230	Various revenue grants without conditions yet to be utilised
Total:	**£21,789,511**	

Appendix A shows the expected balances at the end of the current financial year (2018/19) and the 2019/20 financial year.

One of the key underpinning financial principles of the MTFP is to not use the Council's reserves (and other one-off resources) as a method to balance the ongoing pressures of the budget. However, over the years, the Council has made use of its reserves to deal with one-off unbudgeted matters: to improve services, or to offset declining income levels and support service delivery.

Any situation that jeopardises the levels of reserves will be a serious matter for the Council's External Auditors who expect Members to continue to run the Council as a viable going concern. This is particularly so now, that Members have to, in effect, balance and manage two budgets – the Mainstream revenue budget and also, since April 2013, the local Council Tax benefit scheme and the impact this has in the Collection Fund. As Council Tax benefits are no longer fully funded it adds to the complexity of the Council's operations as a Council Tax billing authority.

One of the largest usable reserves relates to repairs and renewals. Budget is set aside each year through the revenue process to contribute to this reserve in order to smooth the timing of charges over a number of years. Each Service area contributes an element of their revenue budget to their own schemes in order to build the reserve up for when repairs are needed.

The reserve is split into 3 sections:

	Opening Balance 1 April 2018	Movement in	Estimated usage of	Estimated Closing Balance
Property related	£875,240	£155,572	£332,688	£698,124
Grounds Maintenance related	£325,541	£41,377	£148,366	£218,552
Corporate related	£1,210,406	£108,140	£436,851	£881,695
Totals:	**£2,411,187**	**£305,089**	**£917,905**	**£1,798,371**

During 2018/19 £0.305m will be set aside from various service areas in order to contribute to the overall reserve. It is proposed that £0.918m is to be utilised from the reserve during the course of the financial year.

A review of the balance held against the major headings above has been completed and potentially there may be a requirement to increase contributions by approximately £40k per annum in order to ensure all schemes are completed within their estimated timeframes. Schemes are constantly reviewed to ensure that they are not completed where works are not necessary to be carried out, hence where funding can be redirected to schemes that are underfunded at the point the works are necessary, this will be done. Regular reviews of this reserve are made to ensure that its balance is appropriate.

1.9 <u>Assumptions made within the MTFP</u>

Finance officers worked with budget holders at a granular level in order to develop both the 2019/20 and the future forecast budgets in order to build these estimates, but used various assumptions to arrive at this.

A 2% increase in wages and salaries will be assumed for 2020/21 and future financial years. This is in line with the agreement which was reached in early April 2018 between the National Employers and the NJC Trade Unions side on rates of pay applicable from 1 April 2018 and 1 April 2019.

An estimate of inflation equivalent to 3% was used in all years in order to uprate all non-pay income and expenditure. This was considered prudent after looking at forward projections of RPI by the Office of Budget Responsibility, who suggested that RPI will increase by 3% per annum on-going. This estimate therefore has been used in order to forecast the additional year included in this MTFP (2022/23).

Estimates and Debt charges (the charge to revenue for the purchase/creation of a fixed asset where no capital resources were available to finance at the point of creation/purchase of the asset) are in line with the approved MRP policy and the Capital Programme on this agenda.

1.10 Proposed strategy for bridging the funding gap

The forecast funding gap for the term of this MTFP is shown in section 1.1 of the MTFP. The Council has a good track record in dealing with successive central government funding reductions. Since 2010 the Council has had to re-engineer its business processes in order to make substantial savings due to the reduction in Government Grant. Further savings that need to be made are becoming increasingly difficult to identify and deliver, but it essential that the Council continues to identify areas where costs can be reduced or income increased to close the budget gap. The level of reduction in Government grant over the last 4 years has been:

Table 6

Settlement Funding Assessment	**2016/17**	**2017/18**	**2018/19**	**Estimated 2019/20**
	£	**£**	**£**	**£**
Revenue Support Grant	1,776,668	1,048,592	592,374	82,785
Retained Business Rates	3,365,803	3,434,519	3,537,702	3,618,775
Total Settlement Funding Assessment	5,142,471	4,483,111	4,130,076	3,701,560
Reduction in funding from 2016/17		12.8%	19.7%	28.0%
Original Service Budget	12,262,620	11,640,720	12,650,480	13,482,260
Percentage of Service budget funded by Settlement Funding Assessment	41.94%	38.51%	32.65%	27.46%

The levels of these reductions were anticipated and in line with the approved settlement funding agreement awarded to the Council on the basis that it published an efficiency strategy during October 2016. This gave the Council certainty of funding over the 4 year period to 2019/20.

The Commercial Strategy was approved at Policy & Finance 21 September 2017 with the aim of delivering positive financial returns to the Council's General Fund.

The Council's income from fees and charges has been maintained over the period of the reductions in central government funding at around £4.5m. As can be seen from Table 4 this has predicted to remain stable for the 2019/20 financial year, inclusive of the income from partners at Castle House.

The total income needs to be increased significantly if the Council is to bridge the gap in funding in order to continue to deliver its current services and if it wants to meet the expectations and ambitions of the people of Newark and Sherwood. This plan contains an estimate of savings delivered and additional income generated by the Commercial Strategy of £0.250m in each of the financial years.

The Council is limited as to how much additional funding it can generate through Council Tax increases. As stated in section 1.5 the Council has the ability to increase Council by the greater of 2.99% or £5. A 1% increase in Council Tax will generate an additional £0.067m to the Council for the 2019/20 financial year. This also takes into account the estimated increases in tax base as noted in section 1.5.

The formation of the Commercialisation and Major Projects team will lead on a range of commercialisation projects throughout the council. The Commercials Group, which was established in October 2017 is led by the Business Manager – Commercialisation and Major Projects and is made up of a selection of NSDC Officers who have a focus on commercial acumen. Both the Business Unit and the Commercials Group will focus on projects which attract new income streams to the council, maximise current income streams or offer significant savings to the council.

Each project will have a robust Business Case and will be examined as part of the normal committee activity. There are a range of projects in progress, some having already been completed. A financial tracking process is in place to ensure that forecast income is matched to actual income as implementation reaps the rewards of the project over a number of years. There are a range of new projects ready to be commenced and continued horizon scanning means that other opportunities can be taken as they present themselves. This is an agile and responsive programme which touches every part of the organisation.

1.11 Risks Associated with the Budget Process

During 2017/18 the Council changed its process for reporting in year monitoring for financial performance. This process now involves forecasting the outturn position to the end of the financial year, rather than relying on year to date actual performance compared against year to date budget. This process is completed each month from period 3 and is reported quarterly to the Policy and Finance Committee.

Creating a budget is only as accurate as the data compiled at that point in time and there are various risks associated with this. These include:

- Inflation is underestimated in the original estimates
- Interest rates are underestimated
- Changes to grant funding allocations
- Some budgets are only indicative at the time the budget is agreed
- Volatility in some budget headings between years
- Efficiency gains expected in the agreed budget are not achieved
- Unforeseen insurance costs or legal claims
- Emergencies which cannot be foreseen which occur on an ad hoc basis
- Changes to budgets where targets are not met
- Financial guarantees/loans given by the Council
- Unforeseen events
- Assumptions of growth of Business Rates does not materialise due to appeals

Under Section 25 of the Local Government Act 2004, the S151 Officer is charged with reporting the robustness of estimates made. This section fulfils that statutory requirement.
In considering the overall level of budget proposed and the sensitivity of income and expenditure levels it should be noted that:

Council Tax
- A 1% increase in Council tax is equivalent to an additional £0.067m
- A £1 increase in Council tax is equivalent to an additional £0.039m

Staff Costs
Staff costs currently make up 57% of managed expenditure (gross expenditure excluding capital charges, recharges and Housing Benefits payments). This is not unique to Newark and Sherwood, but does cause an issue to the Council. Not only does the opportunity to find non-employee savings become more difficult, any deviation in pay award against the budget could cause real issues. As mentioned at section 1.9, this MTFP has allowed for 2% pay award increase throughout its duration. A 1% increase (based on 19/20 pay) would bring about an increase of £0.120m that would have to be found from reserves.

Income from Fees and Charges
A substantial part of the net budget requirement is dependent on the buoyancy of income streams; this offsetting the expenditure falling to be met from the General Fund and hence Council Taxpayers. Account has been taken within the forecasts of the levels of income which is considered to be achievable. However, any significant under performance on income will give rise to a subsequent increase in the net expenditure and therefore an unbudgeted demand on the General Fund balance. A 1% drop in income from fees and charges across all service areas would be equivalent to (based on 2019/20 budget) £0.046m.

Interest Rates
General Fund currently has no external borrowing and as such is not exposed to any re-financing risk if interest rates were to rise. The Council is anticipating to borrow during the course of the 2019/20 financial year, which would lead to additional interest costs over the life of this MTFP. Fixed rate borrowing is proposed to be taken to alleviate any interest rate risks associated with variable rate borrowing to ensure certainty of costs over the life of the borrowing. Re-financing risk would therefore still not be applicable as the borrowing would span a life longer than this MTFP. Investment income receivable is estimated taking into account various factors such as cash flow, level of capital receipts and payments, levels of reserves and balances and the anticipated interest rates achievable during the year. To the extent that variations occur in the above areas, the level of interest received in the year may fluctuate from that anticipated. The impact of a 1% interest rate change is not considered significant in terms of the Council's net budget requirement.

Inflation
Inflation puts further pressure on non-pay budgets and there is a risk that this could impact on the level of expenditure included in the forecasts in this MTFP. Services Units are, however required to stand the impact of general inflation within their budget targets and an allowance of 3% has been included within service budgets to accommodate this.

1.12 Capital Investment Programme and Funding

The overall approved General Fund Capital Programme for the period from 2019/20 to 2022/23 totals £33.3m. £10.9m is financed by external grant funding for the Southern Link Road (SLR), Disabled Facilities Grant (DFG's) and a specific piece of work in relation to flood alleviation in Lowdham. The grants in relation to the SLR and the flooding alleviation scheme in Lowdham have already been received and are held on the Council's balance sheet as a conditional grant. The DFG funding is received via the Better Care Fund (BCF) and is subject to an annual bidding process.

Other external financing in the forms of contributions from external partners and S106 receipts amount to £3.8m. This relates to the project at Southwell Leisure Centre which includes £750k of Council expenditure in order to extend and improve facilities at the leisure centre to increase the membership base, and also an expectation of £3m of external financing towards the Castle Gatehouse project.

Council internal capital resources employed amount to £10.5m which relates to the equity investment in the Council's Housing development company – Arkwood, the build of a modular pool at Ollerton, the match contribution to Southwell Leisure Centre (as described above), replacing parts of the Council's refuse fleet and other equipment, enhancements to the Buttermarket and flood alleviation works across the District.

Borrowing is the balancing figure for the capital expenditure at £8.1m. This part of the capital programme is currently being financed by prudential borrowing, which attracts a charge to revenue. This charge is called the Minimum Revenue Provision (MRP) and provides for the capital expenditure funded by borrowing using a method approved by Council within the Treasury Management Strategy each year. The current method approved is the asset life method. This apportions notional borrowing incurred over the life of the asset, which is in line with the timeline for receiving economic benefits generated by the asset.

The current Capital resources available for allocation to Capital schemes (before any allocation of New Homes Bonus (NHB) from 2020/21 as proposed in section 1.6) is detailed below:

Table 7

Capital Resources Available	**Amount as at 1 April 2018**	**Commitments 2018/19**	**2019/20-2022/23 Commitments**	**Closing Balance 31 March 2023**
Capital Financing Provision	1,321,307	-278,276	-249,184	793,847
General Fund Capital Receipts	2,911,723	-1,178,408	-1,540,816	192,499
Capital Grants & Contributions Unapplied *	4,565,755	935,091	-1,214,779	4,286,067
Total resources available	**8,798,785**	**-521,593**	**-3,004,779**	**5,272,413**

*£4,286,067 is the estimated balance at 22/23 which relates to Community Infrastructure Levy (CIL) and is therefore ring fenced for schemes relating to infrastructure.

Borrowing Requirements within Current Approved Capital Programme

In order to fully finance the Capital Programme every year an element of borrowing is required where capital resources are not available. As above, the total borrowing over the life of this MTFP amounts to an estimated £8.1m within the current approved capital programme.

Within the £8.1m, short asset lives total borrowing of £2.8m, which equates to around £400k per annum in MRP charges. This is charged in the year following capital expenditure and continues until the borrowing is repaid. The £5.3m balance of borrowing has been allocated to longer life assets (where the life expectancy is approximately 50 years) and the annual charge to revenue for these items is £106k. Should the policy at section 1.6 be adopted, this would release an additional £1.2m to replace the borrowing for short life assets, reducing the charge to revenue by £171k per annum.