Hinckley & Bosworth
Borough Council
A Borough to be proud of

FORWARD TIMETABLE OF CONSULTATION AND DECISION MAKING

FINANCE & PERFORMANCE SCRUTINY	30 JANUARY 2017
COUNCIL	23 FEBRUARY 2017
WARDS AFFECTED:	ALL WARDS

MEDIUM TERM FINANCIAL STRATEGY (SUMMARY) 2016/17 - 2020/21

Report of Head of Finance

1. PURPOSE OF REPORT

1.1 To seek Committee's recommendation to Council to approve the 2017/18 - 2020/21 Medium Term Financial Strategy (MTFS) refresh.

1.2 The MTFS has been prepared taking into account the emerging corporate plan 2017 to 2021 and capital and HRA budgets. The capital and HRA budgets are presented separately but should be read in conjunction with this report.

2. RECOMMENDATION

2.1 That the Committee recommends to Council to approve the updated Medium Term Financial Strategy (MTFS) and increase in minimum balances target to an average of 15% over the life of the MTFS.

3. BACKGROUND TO THE REPORT

Introduction

3.1 The MTFS sets out the council's financial position for the years 2016/17 to 2020/21. The MTFS underpins the council's Corporate Plan and ensures that resources are allocated and used effectively to achieve corporate targets. At the same time, the MTFS is an integral element of the financial planning procedures of the Council and forecasts how the Council will remain financially resilient and sustainable as an organisation, whilst at the same time not placing an unreasonable burden on local taxpayers.

The purpose of the MTFS is to:

- Outline how the council wants to structure and manage its finances and to ensure it fits with and supports the direction of the council's objectives set out in its corporate plan.
- Engage officers and members in "owning" the process by which Council finances are managed.

3.2 The following ten strategic financial objectives, as agreed by Council in previous iterations of the MTFS serve to deliver the council's corporate strategic objectives of; "delivering the council's MTFS with a sustained focus on the council's priorities whilst working to resolve the continuing pressure of service requirements in the context of available resources":

- The Council should allocate resources to services in line with the Corporate Aims and Ambitions
- Ensure regular monitoring of actual spend against budget to assess outcomes and inform the Performance Management Framework
- The Council must search for new sources of funding to support its activities and maximise opportunities from emerging economic initiatives such as City Deals and Local Growth Funds
- To review the scale of fees and charges at least annually
- To optimise the financial return on assets and ensure capital receipts are obtained where appropriate opportunities arise
- Capital expenditure is properly appraised
- When funding the Capital Programme, all funding options are considered
- To review levels and purpose of Reserves and Balances
- To maintain sustainable Council Tax increases
- To increase efficiency savings and generate funding through shared services and collaborative working

3.3 The MTFS (Appendix A)is one of a suite of documents which inform the financial strategy of the Council. These include the Capital Programme, HRA Investment Strategy and Treasury Management Policy, all of which should be read in conjunction with this document.

Review of the MTFS

3.4 Appendix 1 of the MTFS details the level of reserves and balances that the Council will hold at the end of each financial year of the MTFS. In addition this table shows any surplus/deficit on the General Fund balance after applying the proposed Council's policy of holding 15% of the net budget requirement in balances at the end of each financial year. A summary of this information is presented in table 1 below:

Table 1	2016/2017	2017/18	2018/19	2019/20	2020/21	Increase/ Decrease
Forecast	£	£	£	£	£	£
Closing General Fund Balance	1,493,103	1,596,818	1,552,456	1,416,627	1,122,433	(370,670)
Percentage of net budget	0	0	0	0	0	
Closing Earmarked Reserves Balance (excl SEA)	3,682,546	3,940,374	3,749,603	3,979,603	3,984,603	302,057
Total General Fund Reserves and Balances	5,175,649	5,537,192	5,302,059	5,396,230	5,107,036	(68,613)

General Fund Surplus/(Deficit)	263,279	103,715	(44,362)	(135,829)	(294,194)

3.5 The key change in the MTFS is the improvement in the short term financial position of the Council's general fund up to 2019/20, mainly due to higher than expected business rates growth and the fixed rate Garden Waste income (Table 2).

Table 2, Summary of General fund position

Table 2	2016/2017	2017/2018	2018/2019	2019/20	2020/21
Original MTFS	£	£	£	£	£
General Fund Balances	1,024,819	1,030,279	973,685	942,875	n/a
% of net expenditure	10.87%	15.40%	15.19%	10.00%	
Revised MTFS	£	£	£	£	£
General Fund Balances	1,607,255	1,710,970	1,555,533	1,419,704	1,125,509
% of net expenditure	15.68%	16.58%	15.16%	13.83%	11.45%
Net increase	582,435	680,691	581,848	476,829	n/a

Notes:
1,The Reserve for the Community Development Fund has been increased from £535,000 to £1.4m by the end of 2018/19 in this MTFS refresh, due to improved overall income streams, and revising the level of transfers provided into other earmarked reserves

3.6 Due to the reduction in more certain income streams such as RSG, and the move to more changeable income streams from business rates and forecasting collection fund losses, the level of general fund minimum balances has been set 15% over the life of the MTFS in 2017/18 refresh. The MTFS in this report has a five year average to 2020/21 of 15.4%. However, the income streams are less certain and care needs to be taken not to over commit the general fund in early years. Also, other pressures and service improvements, such as the need to replace the waste fleet, have not led to an increase in the Waste Management reserve at this stage, as the decisions to purchase versus lease has not yet been taken. This does not mean that a range of 10% to 15% in any one year is problematic, but that the longer term average should have a target level of 15%.

3.7 That said, the forecast scenario included significant pressures and is only achievable in 2017/18 through commitment to a number of targets and decisions. The table below gives the overall savings and pressures included in the 2017/18 General Fund revenue budget report.

	£
Service Pressures and capital financing	1,034,753
Savings	-1,592,896
Net Savings	-558,143
MTFS Savings identified in the MTFS agreed Feb 16	-168,496
Additional Net Saving achieved	-389,647

3.8. This means that after allowing for contributions to and from reserves the General Fund Balance will increase by £103,715 in 2017/18. The General Fund Budget has the details of these pressures and savings which should be read in conjunction with this report.

3.8.1 Pressures totaling £1,034,753 have been included in the budget. Of this amount £491,080 is contractually committed expenditure as noted below:

- £165,000 relates to staff cost resulting from pay inflation, pay increments, pension and NI costs.
- Pension and NI changes account for £81,000 of this increase and are outside of the Council's control.
- £40,800 Additional costs arising from increase in fuel prices.
- £44,500 Additional costs due to increase in Business Rates for General Fund Properties.
- £34,980 Additional costs arising from the apprentice levy.
- £90,000 Included for changes in capacity (to be taken to Council in February 2017)

Other major services and capital financing pressures include:

- £299,571 of capital financing pressure (includes Leisure Centre and the former Co-Op site)
- £75,000 Additional VCS and Town Centre Support.
- £83,810 Castle Car Park

3.8.2 In comparison, the service savings and additional income of £1,592,829 have been included. The most significant of these savings are:

- £531,130 (net) from Leisure Centre rentals to be received in 2017/18.
- £130,000 planned reduction in Planning Policy; site allocation and local plan expenditure
- £93,000 Increase Car Parking income.
- £209,654 Saving arising from the Corporate Restructure
- £133,048 Net additional income from charging for Garden Waste
- £55,890 Additional income from trade waste and bulky collections and dry recycling
- £129,000 of Planning Site allocation savings from previous year to be realized in 2017/18.
- £119,000 related to a potential VAT liability that was set aside in relation to the Greenfields site, as note in the 2016/17 general fund budget report, but has not been required.

Local Governing Funding

3.9 Each year the council receives a significant amount of financial support from central government in the form of grants. The allocations to the council are determined by Government carrying out Comprehensive Spending Reviews (CSR) which enables it to decide how much it can afford to spend, what its priorities are and targets for improvements to be funded by additional resources.

3.10 The last full review was undertaken in 2015 (CSR15) following the General Election in May 2015 and covered the four years following. The spending targets set in this review were significantly influenced by the Government's desire to remove the deficit and move into surplus by 2019/20.

3.11 The spending review and Autumn Statement had some key points that impact on the Council the table below shows the changes from more stable funding streams such as

RSG and NHB to more locally based and riskier income streams, such as business rate retention over the life of the MTFS:

	2016/2017	2017/2018	2018/2019	2019/20	2020/21
	£	£	£	£	£
Council Tax Income	3,702,072	4,128,670	4,147,429	4,397,136	4,574,780
NNDR (Inc S31 and Loss on the Collection Fund)	2,409,358	3,180,030	3,592,970	3,718,957	3,849,503
New Homes Bonus	2,910,378	2,793,740	2,639,757	2,641,547	2,000,400
Revenue Support Grant	1,257,386	753,927	437,461	83,975	0
Total	10,279,194	10,856,368	10,817,617	10,841,615	10,424,684

3.12 Due to the reduction in more certain income streams such as RSG, and the move to more changeable income streams from business rates, the level of general fund minimum balances has been set 15% over the life of the MTFS in 2017/18 refresh. The MTFS in this report has a five year average to 2020/21 of 14.5%, with 12.2% held in the 2020/21 year. However the income streams are less certain and care needs to be taken not to over commit the general fund in early years. Also, other pressures and service improvements, such as the need to replace the waste fleet, have not led to an increase in the fleet replacement reserve at this stage, as the decisions to purchase versus lease has not yet been taken. This does not mean that a range of 10% to 15% in any one year is problematic, but that the longer term average should have a target level of 15%.

- Councils will be able to use capital receipts for revenue purposes, subject to specific conditions not yet published. This council's ability to realise significant capital receipts is, however, very low.

- The proposal to allow local authorities to retain 100% of business rates income is positive, but details on the allocation (between District and Counties in the two-tier area) and redistribution (to enable low-growth areas to have a degree of protection - called 'damping') have yet to be announced.

- Balanced against the Business Rates proposal will be the withdrawal (over the same period - to 2019/20) of Revenue Support Grant.

- A continuation of average public sector pay awards of 1% for four years from 2016/17 and a 'reining in' of excessive senior salaries and there will be a consultation on appropriate action to limit public sector exit payments.

- NHB has been reduced from a 6 year basis to a five year basis in 2017/18 and then to a 4 year basis thereafter, this has led to a reduction of £0.34m in 2017/18.

3.13 The award of NHB is driven by the housing market and is therefore difficult to predict with any significant degree of accuracy. The Council uses past trends to predict this as much as possible. The financial settlement confirmed that the 6 year basis will stop after 2016/17 and a five year basis used for 2017/18, with a 4 year basis in the following two years.

Business Rates

Business rates have been subject to a new rateable value listing as from 2017/18, which is expected to lead to a significant surge in appeals. There has been a consideration by the DCLG at the in consultation with Society of County Treasurers Technical Support Team that indicates that a figure of as much as 4.5% of gross rates after the multiplier has been applied can be expected. However, historically for appeals that cover a one year period this has not been the level required. Therefore this income is more volatile and less certain than other forms of funding received directly from central Government. The 2020/21 financial year is under significant pressure if appeal losses increase. There may also be additional business rate growth that would off set such losses. Due to the uncertainty in relation to the level of business rates, a Business Rate Equalisation reserve is included in the MTFS, which will have a balance of £1.5 m at the end of 2019/20, which will help protect the council's financial position.

3.14 However, the loss due to appeals is not the only potential need for this reserve. There are currently £8.5m of appeals lodged relating to the 2010 revaluation list, more are likely to arrive in relation to the new 2017 listing. Of the £8.5m, £3.4m would be HBBC share under the current rules of retention. We have a provision for these appeals of £2.8m. This may not be sufficient in a worse case scenario and the reserve would also be required to cover any shortfall. The provision needs to be increased further for the 2017 listing; the current MTFS has losses of income due to collection fund losses up to 2017/18. These losses are so volatile it is difficult to forecast with accuracy, but if the average loss was applied it would lead to a further drop in income of £1m, over the years 2018/19 to 2020/21, bring the general fund balance to 3.4%. However, it must be noted that this may be compensated for by additional growth. Therefore a breakeven position has been used.

Council Tax

3.15 The amount of council tax an authority needs to raise is the difference between its budget requirement (the Council's planned spending less any funding from reserves and income, excluding income from the Government and council tax) and the funding it will receive from the Government. The level of council tax and any increase is approved by Council annually.

3.16 The proposed financial settlement, published 17 December 2015, had a clear break with the prior position of requiring council's to seek to set a zero increase in council tax where possible for the years of the Spending Review of 2010. On this basis Freeze Grants are no longer offered to incentivise councils to not increase their tax levels. For 2016/17 the financial settlement offered the ability to councils that have been prudent in council tax increments and find themselves in the bottom quartile for the level of council tax charged, to level a £5 increase for a four year period. This was agreed as part of the 2016/17 MTFS equates to £0.4m over the life of the MTFS. The Current MTFS refresh has assumed this will be maintained and for forecasting purposes that a 2% increase will be levelled in 20120/21. This would require approval in that year, but equated to £90,000 of income in that year.

Other Factors

3.17 In addition to those risks relating to financing detailed above, this MTFS highlights a number of other key factors that will impact on the financial positon of this Council over the next four financial years. These include, but are not limited to:

- **Business Rates -** The Business Rates Retention Scheme (BRR) commenced on 1st April 2013. Under the scheme, the council can retain a proportion of locally generated business rates over a set baseline where growth occurs. Whilst this financing regime provides the opportunity to financially reward the council, the volatility of the market makes it difficult to budget for. In addition to "standard" business rates collected, the creation of the Enterprise Zone at MIRA Technology Park will also generate significant increases in business rates. In order to stimulate such growth, these uplifts are not subject to business rate retention rules. The council is currently in negotiation with the Leicester and Leicester Local Enterprise Partnership (LLEP) to identify what element of this uplift will be retained by the Council directly. Any agreement will seek to avoid being prejudicial to the Council's position post 2020 when the 100% retention rate is introduced. In order to be prudent, this income has not been included in this version of the MTFS.

- **Capital Programme -** The council's capital investment plans are outlined annually in the Capital Programme (the "Programme") which is approved at the same time as the revenue budget. The Capital Programme forecasts spend of over £21.7million, and is concentrated around the achievement of three capital projects: build of the new leisure centre, the Crescent development and redevelopment of the current leisure centre site. Although capital expenditure is clearly separated from revenue spend within the council's budget, the use of capital resources has an impact on revenue in the following ways:-

    - The use of capital resources will result in a corresponding reduction in investment income.

    - Any borrowing will incur interest payments and minimum revenue provision which is charged as a "cost" to the Council's revenue budget

    - The creation of new assets will require running costs that will have to be funded from revenue sources.

- **Income Levels -** A significant proportion of council expenditure is financed from income from fees and charges. A number of these income streams are extremely volatile and depend on external factors such as take up, demand and local economic conditions. The most significant and sensitive changes in income levels include:

    - Planning fees - Whilst the council has seen a large increase in planning fees in the last two to three financial years, this income stream is highly dependent on both the housing and commercial market and therefore large "windfalls" often occur in times of prosperity. In addition to income received for planning fees, the council has seen significant costs for appeals against decisions taken by Planning Committee. In order to prudently budget for future costs, scenarios for appeal costs have also been considered in this Strategy.

    - Car Parking - Going forwards, the level of income received from parking will be affected by the development of the town centre.

    - Refuse and Recycling Income - The council continues to charge for a number of refuse and recycling services such as trade waste and bulky waste.

- o Rental Income - In addition to the council's current portfolio of industrial units, the MTFS considers the income currently known as due from Block C within the new town centre development.

- **Efficiencies -** In order to manage the council's financial position and to ensure ongoing resilience and value for money, the MTFS includes a number of initiatives such as centralisation of budgets, review of support services, and implementation of Channel Shift and utilisation of offices buildings which may aid this position. That said, staff costs continue to be the largest single expenditure type for this Council and therefore the possibility of future restructuring cannot be ruled out. The MTFS assumes that a net cost in 2017/18 of £209,000 of restructure cost will be incurred by the General fund; there is a further £81,000, but this fall on the HRA.

3.18 In addition to this, the following general assumptions will be used for all forecasts:

- RSG levels as outlined in the Spending Review, but expected to continue to reduce with zero allocation by 2020/21.
- The Collection Fund will be breakeven after 2017/18
- There is no change to the Local Council Tax Scheme over the life of the MTFS.
- Pay increase 1% for 2016/17 and 1% thereafter.
- 5% vacancy factor each year.
- 0.25% base rate for 2017/18.
- Retail Price Index of 2.1% for the life of the MTFS.

4. EXEMPTIONS IN ACCORDANCE WITH THE ACCESS TO INFORMATION PROCEDURE RULES

4.1 Report to be taken in open session

5. FINANCIAL IMPLICATIONS [AW]

5.1 Contained in the body of the report.

6. LEGAL IMPLICATIONS [AR]

6.1 The MTFS provides the foundations to allow the Council to meet its statutory obligations in accordance with Section 32 of the Local Government Finance Act 1992 and section 25 of the Local Government Act 2003. The Council has a statutory requirement to set a budget for each financial year and approve the MTFS, including a three year capital programme.AR

7. CORPORATE PLAN IMPLICATIONS

7.1 A robust MTFS is required to ensure that resources are effectively allocated in order to ensure delivery of all of the aims, outcomes and targets included in the Council's Corporate Plan.

8. CONSULTATION

8.1 All members of the Strategic Leadership Team have been consulted in preparing this Strategy.

9. RISK IMPLICATIONS

9.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

9.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

9.3 The following significant risks associated with this report / decisions were identified from this assessment:

9.4 The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
That the Council has insufficient resources to meet its aspirations and cannot set a balanced budget	A budget strategy is produced to ensure that the objectives of the budget exercise are known throughout the organisation. The budget is scrutinised on an ongoing basis to ensure that assumptions are robust and reflective of financial performance. Sufficient levels of reserves and balances have been maintained to ensure financial resilience	A Wilson

10. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

10.1 The budget process will impact on all areas of the Borough and all groups within the population.

11. CORPORATE IMPLICATIONS

11.1 By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Procurement implications
- Human Resources implications
- Planning implications
- Data Protection implications
- Voluntary Sector

Background papers: None

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