SCRUTINY COMMISSION – MARCH 12TH 2015

Hinckley & Bosworth Borough Council
A Borough to be proud of

REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)

RE: MEDIUM TERM FINANCIAL STRATEGY (ABBREVIATED) 2014/2015 – 2017/2018

WARDS AFFECTED: ALL WARDS

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1. PURPOSE OF REPORT

1.1 To review the abbreviated Medium Term Financial Strategy (MTFS) 2014/2015-2017/2018 pending completion of a full revision in September/October 2015.

1.2 The MTFS will be presented to Council for approval on March 17th 2015.

2. RECOMMENDATION

That Scrutiny endorse the following recommendations to be made to Council:

2.1 That Council approve the abbreviated Medium Term Financial Strategy (MTFS).

2.2 That Council note that this abbreviated iteration of the MTFS is a "refresh" and is concentrated around the various scenarios.

2.3 That Council note that a complete revision of the MTFS, along with full narrative commentary will be produced in September/October 2015 following the general and local elections in May 2015.

2.4 That Council endorse the "targets" set out in 3.9 which will ensure achievement of the "forecast" financial position.

3. BACKGROUND TO THE REPORT

Introduction

3.1 The Medium Term Financial Strategy (MTFS) sets out the Council's financial position for the years 2014/15 to 2017/18. 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 as an organisation, whilst at the same time not placing an unreasonable burden on local taxpayers.

3.2 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.
- Engage officer and members in "owning" the process by which Council finances are managed

3.3 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 Medium Term Financial Strategy 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

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

Review of the MTFS

3.5 **Appendix 1** contains the models outlining three financial scenarios for the next three financial years. The assumptions used in these scenarios is detailed in section 3.23.

3.6 **Appendix 2** details the level of reserves and balances that the Council will hold at the end of each financial year of the MTFS for all scenarios. In addition this table shows any surplus/deficit on the General Fund balance after applying the Council's policy of holding 10% of the net budget requirement in balances at the end of each financial year. A summary of this information is shown below:

	2015/2016 Budget	2016/2017 Forecast	2016/2017 Best Case	2016/2017 Worst Case	2017/2018 Forecast	2017/2018 Best Case	2017/2018 Worst Case
	£	£	£	£	£	£	£
Closing General Fund Balance	1,079,112	995,780	1,978,029	-667,279	1,105,476	3,646,957	-2,917,417
Closing Earmarked Reserves Balance	3,519,399	3,581,089	3,581,089	3,381,089	4,172,459	4,172,459	3,972,459
Total General Fund Reserves and Balances	4,598,511	4,576,869	5,559,118	2,713,810	5,277,935	7,819,416	1,055,042
General Fund Surplus/(Deficit)	112,279	1,207	957,475	-1,633,634	65,228	2,552,993	-3,898,635

3.7 What is clear from **Appendix 2** is that the worst case scenario is not viable under any circumstances and will effectively lead to the eradication of the General Fund and the potential insolvency of the Council. Conversely the best case scenario forecasts material levels of surplus balances that, in reality, would be difficult to achieve.

3.8 The previous version of the MTFS (approved by Council in July 2014) showed that this Council needed to enact a number of decisions in order to achieve the best case scenario. The most significant of these was the removal of New Homes Bonus from parish councils. In addition this iteration set challenging targets on income levels for New Homes Bonus and planning fees, both of which have been realised in 2014/2015 and 2015/2016. By achieving these "targets" and notwithstanding the comments made in this report regarding the future funding arrangements following the General Election, the Council is now back to the position pre 2014/15 of being able to set a realistic forecast scenario for 2016/17, which will retain sufficient balances and reserves.

3.9 That said the forecast scenario is only achievable in 2016/17 through commitment to a number of targets and decisions. These movements are documented in the table below and will be used as a target for members and officers over the period of this Strategy:

	2016/17
	Target (£)
Increased levels of building control income	25,000
Reduction in banking contract	10,000
Increased levels of development control income	78,000
Savings from restructure of Revenues and Benefits Partnership (HBBC share)	108,017
Introduction of a green waste charge and or a large Council Tax increase	486,000
Hub utilisation savings	50,000
Further centralisation of budgets	12,000
Reduction in contribution to VCS hub	12,330
Savings from restructure	129,800
Additional income from Block C (75% occupancy)	188,303
Phased reduction of Council Tax Support grant to parishes	23,452
Channel Shift	31,902
Retender of ICT contract	100,000
Private management of Atkins building	50,000
Support services review	25,000
Insurance contract saving	10,000
Additional in year savings	180,000
Increase in Council Tax (2%) and base (2%)	138,012

Local Governing Funding

3.10 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.

3.11 The last full review was undertaken in summer 2010 (CSR10) following the General Election in May 2010 and covered the four years following. The spending targets set in this review were significantly influenced by the Coalition Government's desire to remove the deficit within the term of this current Parliament.

3.12 Ahead of the next full review, the government underwent a "mini" Spending Review in 2013 to refresh and consider arrangements outlined by CSR10. The key points of this review for local government included:

- Public sector pay rises will be limited to average of 1% for 2015/2016
- A reform of the notion of automatic progression pay - this is where employees get a pay rise and move up a pay grade every year, regardless of performance
- The Department of Communities and Local Government will need to make a further 10% savings in the forthcoming year
- £3billion of capital investment in affordable housing and the troubled families programme
- Support for another two years of council tax freezes through provision of grant funding for eligible councils
- An additional £2 billion in growth funds which can be bid for by local enterprise partnerships

3.13 The specific allocations of funding for all local councils is announced in the annual "Autumn Statement" and published in Local Government Finance Settlement for the following year. The following table outlines the funding that has been provided to this Council each year since CSR10. As outline below, total core funding for this Council since 2011/12 has decreased by £1,887,269 (31%).

	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
	£	**£**	**£**	**£**	**£**
Revenue Support Grant	1,410,200	102,163	2,992,354	1,949,297	1,120,574
Local Council Tax Support Grant	0	0	0	544,764	544,764
National Non Domestic Rates	4,562,237	5,270,283	1,990,732	2,251,383	2,294,404
Rates Cap	0	0	0	24,570	0
Council Tax Freeze Grant	105,260	105,810	147,511	189,239	230,686
Total Core Funding	**6,077,697**	**5,478,256**	**5,130,597**	**4,959,253**	**4,190,428**

3.14 Historically, the annual Settlement contained the funding numbers for the coming year, along with a provisional Settlement for the following financial year. The information for 2016/17 was not provided at the time of the 2015/16 Settlement. For the purpose of this MTFS, various funding scenarios have been calculated, as outlined in section 3.6. The MTFS also assumes that the current method of local government financing continues after 2016/2017, the reality of which will not be known until after the General Election.

3.15 The headlines detailed in the 2015/16 Settlement are detailed below. In total, funding available for all English councils fell by £3.3 billion or 13.6% in 2015/16. The cuts for shire districts are starker at 15.28% and for this Council 15.7%. (Note, the numbers below are not directly comparable to the core funding detailed above as the Settlement funding includes a number of smaller grants which are attributed to specific service areas within the budget)

	Adjusted 2014-15 Settlement Funding Assessment	2015-16 Settlement Funding Assessment	Mvt	Mvt
	£million	£million	£million	%
Total England	24,112.195	20,832.539	-3,279.656	-13.60%
Shire Districts	1,112.630	942.660	-169.970	-15.28%
Hinckley and Bosworth Borough Council	4.984	4.197	-0.786	-15.78%

3.16 In addition to this core funding, the Council's financing is supported by the receipt of New Homes Bonus. New Homes Bonus was introduced in February 2011 and is designed to encourage housing growth by providing a financial incentive for councils and local people to accept new housing. For each additional new home built local authorities receive six years of grant based on the council tax. This will increase in amount each year as more new housing comes on stream. The scheme applies to new housing and empty properties brought back into use. In addition a £350 payment is granted per year for each affordable home, as well as traveler sites in public ownership.

3.17 To date this Council has been awarded over £5.4million of funding through New Homes Bonus This funding has not been used for specific projects but rather to support the General Fund and sustain discretionary services. Until 2015/16, 25% of the annual allocation was transferred to parish councils. This arrangement will cease from 2015/16 due to significant reductions in funding from central government and the impact of Leicestershire County Council's decisions to cut funding to district councils .

Financial Year	Total Allocation	Transfer	Retained NHB
	(£)	to Parishes (£)	(£)
2011/12	349,760	87,440	262,320
2012/13	711,292	177,823	533,469
2013/14	1,042,501	255,815	786,686
2014/15	1,401,891	348,526	1,053,365
2015/16	1,974,742	0	1,974,742
Total	**5,480,186**	**869,604**	**4,610,582**

3.18 The award of New Homes Bonus is driven by the housing market and is therefore difficult to predict with any significant degree of accuracy. As outlined 3.5 three scenarios have been forecast based on the current planned housing trajectory for the remaining years of the MTFS.

	Worst Case (£)	Forecast (£)	Best Case (£)
2015/16		1,974,742	
2016/17	2,211,500	2,329,879	2,448,258
2017/18	2,533,294	2,812,570	3,091,846

3.19 The future of New Homes Bonus following this Government term is currently unknown. However what is clear is the reliance on district councils on this stream of income in sustaining General Fund balances and delivering discretionary services.

The forthcoming complete MTFS will reflect any future scheme that is introduced following the General Election.

Council Tax

3.20 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.

3.21 One of the directions of CSR10 and the 2013 Spending Review was that Council's should seek to set a zero increase in council tax where possible. The Government announced compensation grants for those Council's who met this objective. This Council has frozen council tax since 2011/12 and therefore has been eligible for these grants each year. Whilst this is beneficial for the tax payer, it has caused "erosion" to the council tax base of this Council and reduced the potential spending power by over £0.5million.

3.22 For the purpose of this MTFS, three different scenarios have been used to consider the impact of council tax levels going forward. These have been detailed in section 3.5

Other Factors

3.23 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 three 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 volitality 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 business rates uplifts estimated at over £14million for the first ten years of operation. 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. In order to be prudent, this income has not been included in this version of the MTFS.

- **County Council Cuts –** Leicestershire County Council has identified a budget gap of £110million by 2018 and therefore is required to make stark cuts to services and staffing to balance the budget. In order to find savings, a number of cuts have been made to funding provided to district councils. In 2015/16, the budget reflects a £345,792 pressure relating to the withdrawal of green waste recycling credits by the County Council. In addition, it is expected that the County will withdraw funding for dry recycling in 2016/17, creating a further gap of up to £500,000.

- **Universal Credit –** Universal Credit will be introduced for new benefit claimants in the Borough from April 2015. Whilst the majority of responsibilities relating to Universal Credit will be picked up by the Department for Work and Pensions (DWP), this Council will continue to have a role to play in supporting claimants and providing personal budgeting advice. In addition, there may be an indirect impact on other council services such as revenues and benefits, housing and homelessness as a result of the roll out of the scheme.

- **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 for 2014/15 – 2017/87 forecasts spend of over £24million, and is concentrated around the achievement of three capital projects: build of the new leisure centre, the town centre Crescent development and delivery of the A5 infrastructure works around the MIRA Enterprise Zone. 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. On this basis, it is important that this MTFS forecasts varying levels income to consider the financial impact of fluctuations that may occur. 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 2-3 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 in the town centre. The Council no longer have access to the Brunel Road and town centre parking is expected to be impacting due to the provision of parking at the Crescent supermarket for a free/marginal price. The negative impact on pay and display income of similar developments at other authorities has been in excess of 40%.
    - Refuse and Recycling Income – The Council continues to charge for a number of refuse and recycling services such as trade waste and bulky waste. The Council has decided to not introduce charges for green waste in 2015/16 to compensate for those cuts detailed above. However the MTFS considers the impact on the General Fund if charging was/was not introduced from 2016/17.
    - Rental Income – In addition to the Council's current portfolio of industrial units, the MTFS considers various scenarios for income due from Block C within the new town centre development. Failure to secure tenants to these units poses a significant financial risk to the Council.

- **Efficiencies -** In order to manage the Council's financial position and to ensure ongoing resilience and value for money, Council officers are continually looking to identify savings and cut costs. The MTFS includes a number of initiatives such as centralisation of budgets, review of support services, 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 total of £175,000 of redundancy costs will be incurred in 2015/16, leading to staff savings of £250,000 by the end of the period of this Strategy.

- **Local Housing Company –** The Council is currently considering setting up a wholly owned company for delivery of new rented property. With the exception of a budget for £100,000 (funded from reserves) to fund the costs associated with set up of this arrangement, this MTFS version does not present any further financial implications of the company structure. It is expected that the business case for the company will be completed for full revision of the MTFS and financial implications will be presented in full in this document. These will include:

- A margin on interest, being the difference between the interest charged to the company for any loans (which is required to be of a commercial level) and the preferential interest rate paid to PWLB for this borrowing
- Payments for services charged to the Council for the provision of services provided (e.g. support services support)
- As the sole shareholder, the Council will receive dividends from the company at the point profit is realised
- Increased levels of Council Tax and New Homes Bonus from properties built

Assumptions and Scenario Planning

3.24 The future of funding for local government and the income and expenditure streams that this Council manages are volatile and heavily dependent on the wider socio-economic climate and Government policy. In order to effectively plan for potential changes, this Medium Term Financial Strategy presents 3 scenarios; a forecast position, best and worst case scenario. Each scenario is based around a hybrid of assumptions for income streams, expenditure requirements and funding settlements, all of which could have a material impact of the financial standing of this Council. By considering these varied scenarios, the Council is able to effectively quantify the potential impact of a range of circumstances which may occur.

	Worst Case	**Forecast**	**Best Case**
Council Tax	Freeze	2% increase 2016/17 onwards	2% increase 2016/17 onwards
Income levels - Development control - Building control - Car Parking - Trade Waste - Rental	Reduced levels	Assumed levels	Increased levels
New Homes Bonus	50% at Band C	75% at Band C	100% at Band C
Appeals costs	£200k per annum	£100k per annum	£nil
Council Tax Support to Parishes	£143,000 each year	Reduce by block funding % decrease from 2016/17	Nil from 2016/17
Revenue Support Grant (2016/2017 onwards)	20% reduction annually	16.4% reduction annual as with 2015/16)	10% reduction annually
Council Tax Base	1% increase annually	2% increase annually	3% increase annually
Green Waste [1] (2016/17 onwards)	No charge	Charge introduced	Charge introduced
ICT Procurement (2016/17)	£50,000 saving	£100,000 saving	£150,000 saving
Business Rates Retained Growth (2016/17 onwards)	£100,000 loss (over safety net) annually	No growth/loss	£100,00 retained growth annually
Commercial management of the Atkins Building	Not achieved	£50,000 saving/income	£100,000 saving/income

[1] The MTFS includes a baseline target of income of £486,000 from the introduction of a charge for green waste collections and/or an increase I council tax of around 9.5%

(from 2016/17)			
Support Services savings	£nil	£25,000 saving 2016/17 and 2017/18	£50,000 saving 2016/17 and 2017/18
Additional Cost of Discretionary Housing Payments (DHP) (from 2016/17)	£50,000	£25,000	£nil
Occupancy of Block C (from 2016/17)	50% occupancy	75% occupancy	100% occupancy

3.25 In addition, the following general assumptions have used for all forecasts:

	2015/16	**2016/17**	**2017/18**
Pay increases (including members allowances)	1% increase	2% increase	2% increase
Vacancy factor	5% of staff costs	4% of staff costs	3% of staff costs
Base Rate	0.5% (no increase)	0.75%	1%
Retail Price Index	3% increase	3% increase	3% increase
LCTS Cap	12%	12%	12%
County Council cuts	Green Waste and Sure Start	£500,000	£500,000 (no increase)
Revs and Bens Partnership Savings	0	£85,000	£85,000 (no increase)
Growths	Per budget	£100,000	£100,000
Unidentified savings	Per budget	£150,000	£150,000
County Council cuts	Per budget	Green Waste + £100,000	Dry Recycling + £100,000
NNDR Baseline	Per Settlement	+ 0.25%	+0.25%
Staff Restructuring	Per budget (£175,000 costs)	1/3 savings	1/3 savings

4. FINANCIAL IMPLICATIONS [KP]

4.1 Contained in the body of the report

5. LEGAL IMPLICATIONS [EH]

5.1 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. Council has a statutory requirement to set a budget each year and approve the MTFS, including a three year capital programme.

6. CORPORATE PLAN IMPLICATIONS

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

7. CONSULTATION

7.1 All members of the Strategic Leadership Board, Corporate Operations Board and the Executive have been consulted in preparing this Strategy.

The Council consulted on all budget priorities in a budget setting survey conducted in August/September 2013. It is expected that a further consultation will take place before the next refresh.

8. RISK IMPLICATIONS

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

8.2 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.

8.3 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 are maintained to ensure financial resilience	S. Kohli

9. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

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

10. CORPORATE IMPLICATIONS

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

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

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