



**RE: MEDIUM TERM FINANCIAL STRATEGY 2016/17 - 2019/20
REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE
DIRECTION)**

WARDS AFFECTED: ALL WARDS

1. PURPOSE OF REPORT

- 1.1 To consider and approve the 2016/17-2019/20 Medium Term Financial Strategy (MTFS) attached at Appendix 1.
- 1.2 The MTFS has been prepared taking into account the 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 Council approve the Medium Term Financial Strategy (MTFS) 2016/17 - 2019/20.

3. BACKGROUND TO THE REPORT

Introduction

- 3.1 The MTFS sets out the council's financial position for the years 2016/17 to 2019/20. 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.
- 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 officers 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 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

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

Review of the MTFS

3.5 Appendix 2 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 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 presented:

	2016/2017	2017/18	2018/19	2019/20
	Forecast	Forecast	Forecast	Forecast
	£	£	£	£
Closing General Fund Balance	1,113,891	1,588,167	1,460,066	942,539
Percentage of net budget	10.87%	15.41%	15.09%	10.00%
Closing Earmarked Reserves Balance	3,541,620	3,886,990	4,219,050	4,658,110
Total General Fund Reserves and Balances	4,655,511	5,113,630	5,326,590	5,239,122
General Fund Surplus above 10%	89,071	557,888	495,382	-337

The introduction of a Green waste charge from April 2016 is key to maintaining the finances of the Council. To introduce it at a later date or not to do so at all will have serious negative consequences for the sustainability of the Council's MTFS.

Table 1, Summary of Green Waste income and costs

	2016/2017	2017/2018	2018/2019	2019/20	Total
	£	£	£	£	£
Income	485,160	485,160	485,160	485,160	1,940,640
Costs	203,603	70,555	70,555	70,555	415,268
Net	281,557	414,605	414,605	414,605	1,525,372

Reserves position without the £24 Green Waste					
Contribution to/- from Balances	213,450	135,078	-458,299	-865,726	
General Fund Balance *	1,443,274	1,578,352	1,120,052	254,326	
Balance %	14.08%	15.32%	11.50%	2.70%	

- 3.6 The previous version of the MTFFS abbreviated (approved by Council in March 2015) showed that this Council needed to achieve challenging targets on income levels for New Homes Bonus (NHB) and planning fees, both of which have been realised in 2015/2016. The Council has forecast a scenario for 2016/17, which will retain sufficient balances and reserves for that year. The MTFFS, however, shows increasing pressures from 2017/18 which now requires action to address, which will be addressed by the immediate introduction of the Green Waste Charge and other efficiency savings going forward.
- 3.7 That said, the forecast scenario included significant pressures and is only achievable in 2016/17 through commitment to a number of targets and decisions. The table below gives the overall savings and pressures, excluding green waste, included in the 2016/17 budget, which were covered in the 2016/17 General Fund Budget report.

	£
Service Pressures	2,585,014
Savings	-2,201,418
Net pressures	383,596

- 3.8 In order to drive efficiency savings within the cost of supplies and services, a rate of 0% has been applied to non-contract related expenditure. As the Retail Price Index (RPI) has stood between 2-3% in year, the application of 0% represents an effective saving on running costs. For contracts, an inflation rate of 1.1% has been used, unless otherwise specified within the terms of the specific contract.
- 3.9 The salaries and wages budget is the most significant element of the revenue budget. For pay costs, the 2016/17 estimates includes the agreed 1% pay award, agreed nationally. The council operates a disciplined process of challenging recruitment and filling of posts and therefore a salary saving rate of 5% (General Fund and HRA) has been applied to posts to reflect the savings which will result from this challenge. This rate is unchanged from that used in 2015/16.
- 3.10 Service pressures totaling £2,585,014, endorsed by the Strategic Leadership Board, have been included in the budget. Of this amount:
- £459,000 relates to staff cost resulting from pay inflation, pay increments, pension and NI costs. Pension and NI changes account for £246,000 of this increase and are outside of the council's control.
 - £298,100 relates to additional costs incurred under the recycling contract.
 - £108,970 relates to asset management costs for Block C, but is completely off set by associated income.
 - £157,000 relates to additional interest in relation to funding the capital programme.
 - £174,041 impact from the Tin Hat Partnership loan which ended in 2015/16.
 - £30,200 relates to a net increase in the budget for restructuring costs that may arise in year.
- 3.11 In comparison, service managers and the Corporate Operations Board (COB) have identified £2,201,418 savings through review of income streams and expenditure levels. The most significant of these savings are:
- £336,421 (net) from Leisure Centre rentals to be received in 2016/17.
 - £351,779 rental income due to the Council in 2016/17 from the units owned on the Crescent development (Block C).
 - £154,000 increase in trade waste and recycling income.

- £143,000 savings from the planned removal of Local Council Tax Support Funding to parishes.
- £15,000 additional growth in the income budget for planning fees. This reflects the ongoing increase in applications made to this service.
- £129,000 of Planning Site allocation savings from previous year to be realised in 2016/17.
- £119,000 related to a potential VAT liability that was set aside in relation to the Greenfield site, as note in the 2015/16 general fund budget report, but has not been required.

3.12 The table below covers the savings and pressures that have been included in future years based on our current forecast. Each year the Council completes an exercise to identify potential savings and pressures. There is the potential, therefore, that in future years further savings and pressures will be identified and forecasting to 2019/20 increases the level of uncertainty in the achievement of the figures given, due to unforeseen circumstances. The forecast, nevertheless, is considered the most likely based on our current knowledge and assumptions. In the table below, negative (-) amounts relate to savings/additional income; positive amounts refer to additional pressures.

Description	2017/2018	2018/2019	2019/20	Assumptions
	Forecast	Forecast	Forecast	
	£	£	£	
Block C Rentals	-119,833	-26,201	0	Assumed 90% then 95% occupancy
Leisure Centre income	-71,946	-499,180	-108,200	Mgt fee doubles in 2018/19
Inflationary increases Fees and Charges	-67,856	-68,534	-69,220	1% on Fees and charges
Defending planning appeals	-50000	0	0	Assumed savings targets
Hub savings (VCS) income	-35000			Assumed savings targets
Channel Shift savings	-31902	-18714	-19202	Channel shift savings 10% but staggered between years 2-5 on various elements
Support service savings	-25000	-25000	-25000	Assumed savings targets
Development control income	-16,387	-16,714	0	Assumed 2% growth for 17/18 onward, 16/17 includes known growths
Car parks	-7,980	-8,139	-9,102	10% reduction from impact of Sainsbury's, 2% increase after 16/17
Building Control	-3,989	-4,069	0	Assumed 2% growth for 17/18 onward, 16/17 includes known growths
Dry Recycling contract	0	470,000	0	Dry recycling tonnages reducing. Assumed reduction will be offset by inflationary increases in credit rate paid by LCC

Admin support grant changes	10000	10000	10000	Expecting reductions assumed £10k in future years based on historical movements.
Additional interest payable/(receivable)	18,300	-10,200	-10,200	0.75% base rate for 2016/17 and 1% for 2017/18 and 2018/19
Discretionary Housing Payments	25000	0	0	Assumed increases based on historical trend
Restructure costs	40,000	0	0	To cover potential restructure costs
Inflationary increases	111,744	112,861	113,990	1% on contracts, 0% on supplies & services
Capital Financing	172,000	-8,000	20,000	MRP implications of Capital Expenditure
Pay cost increases (all elements, NI, Pensions and increments)	192,400	194,324	196,267	This is to cover the costs of pay pressures based on 1% pay inflation

Local Government Funding

- 3.13 Each year the Council has received 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.
- 3.14 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.
- 3.15 The spending review and Autumn Statement had some key points that impact on the Council and included:
- There will be an overall reduction of 24% in central government funding for local government in the period up to and including 2019/20.
 - 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. The percentage actually retained in practice is significantly below the level of Business Rates collected.
 - Balanced against the Business Rates proposal will be the complete 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.
 - New Homes Bonus (NHB)- Current commitments will be honored for their six-year terms. However, the government will consult on responses for the future, including a reduction in the term of the payments - to four years from six years, which is stated as its preferred option.

3.16 The specific allocations of funding for all local councils is announced in the annual “Autumn Statement” and published in the Local Government Finance Settlement. The provisional Finance Settlement, published in December 2015, outlines the funding that has been provided to this Council. As outlined below, total core funding for this Council since 2011/12 has decreased by £2,441,952 (40%) to 2016/17. Our forecast indicates this will continue to fall, particularly as Revenue Support Grant is being phased out. The expected reduction in Core funding to 2019/20 is £3,271,732 (54%).

	Actual	Actual	Actual	Actual	Actual	Provisional	Forecast	Forecast	Forecast
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Revenue Support Grant*	1,410,200	102,163	2,992,354	1,949,297	1,120,574	1,257,386	753,927	437,461	83,975
Local Council Tax Support Grant	0	0	0	544,764	544,764	0	0	0	0
National Non Domestic Rates	4,562,237	5,270,283	1,990,732	2,251,383	2,294,404	2,378,358	2,478,817	2,602,758	2,797,965
Rates Cap	0	0	0	24,570	0	0	0	0	0
Council Tax Freeze Grant	105,260	105,810	147,511	189,239	230,686	0	0	0	0
Total Core Funding	6,077,697	5,478,256	5,130,597	4,959,253	4,190,428	3,635,744	3,232,744	3,040,219	2,881,940

**All actuals as funding is being removed and the provisional settlement gave full details up to 2018/19.*

3.17 In addition to this core funding, the Council’s financing is supported by the receipt of NHB. NHB 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.

3.18 The Government is commencing consultation on the future NHB funding and has set out proposals for reductions in the number of years for which the bonus is paid from the current 6 years to 4 years. The consultation considers mechanisms by which the changes could be calculated and provides exemplifications to show how the changes would work in practice, alongside indications of the total cost. The changes are only proposed to take affect from 2017-18 onwards.

3.19 The award of NHB is driven by the housing market and, therefore, is difficult to predict with any significant degree of accuracy. We have assumed the consultation option will be implemented and included a 6 year basis for 216/17 and 2017/18, with a 4 year basis in the following two years. This is the Government’s preferred option, but it is considering whether to move further and reduce payments to 3 or 2 years. We have used also the proposed build trajectory provided from our planning team, which is based on build information provided by house builders in the area. However, as this is not always fully delivered, or varies in accuracy, we have used a decreasing realisation rate to that information over the life of the MTFS. The table below gives forecast NHB over the MTFS period.

	2016/2017	2017/2018	2018/2019	2019/20
	Forecast	Forecast	Forecast	Forecast
	£	£	£	£
New Homes Bonus	2,910,378	3,135,722	2,522,221	2,124,272

3.20 The future of NHB following this Government term is currently unknown. However, what is clear is the reliance placed by many district councils on this stream of income in sustaining their longer term finances. Under the consultation there is also an option being propose to have a interim position in 2017/18 based on a 5 year basis of funding. This may be introduced based on the result of the consultation. If this was the outcome, the funding in 2017/18 would be reduced by £361,500, with a corresponding reduction in the special purpose reserve to ensure the Council remain within it 10% minimum balance policy.

Council Tax

3.21 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.

3.22 The proposed financial settlement, published 17 December 2015, had a clear break with the prior position of requiring councils 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 offers the ability to councils, which 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 equates to an increase of £100,395 for this Council above the 2% increase planned (including Special Expenses).and will be confirmed following approval of Council Tax levels at this meeting. This Council is currently levies the joint eighth lowest council tax in the country (out of 201 districts) and, therefore, is comfortably within the bottom quartile.

3.23 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 from 2020/21.
- Increased levels of surplus on Collection Fund based on Local Council Tax Scheme.
- Pay increase 1% for 2016/17 and 1% thereafter.
- 5% vacancy factor each year.
- 0.75% base rate for 2016/17 and 1% for 2017/18 and 2018/19.
- Retail Price Index of 1.1% for 2016/17 and 2% for 2017/18 and 2018/19.

4. FINANCIAL IMPLICATIONS [AW]

4.1 Contained in the body of the report.

5 LEGAL IMPLICATIONS [MR]

- 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 for each financial 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 all 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.

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	<p>A budget strategy is produced to ensure that the objectives of the budget exercise are known throughout the organisation.</p> <p>The budget and associated expenditure are scrutinised on an ongoing basis to ensure that assumptions are robust and reflective of financial performance.</p> <p>Sufficient levels of reserves and balances have been maintained for 2016/17, and 2017/18, further action may be needed for 2018/19 and 2019/20 to ensure financial resilience</p>	Deputy Chief Executive (Corporate Direction)

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
- Data Protection Implications
- Procurement Implications

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Appendix 1 Reserves and balances

	2016/2017	2017/18	2018/19	2019/20
	Budget £	Forecast £	Forecast £	Forecast £
Working Balances Position (Excluding Special Expenses)				
Opening General Fund Balance 1st April	1,229,824	1,113,891	1,226,640	1,107,539
Transfer to /from Balances	-115,933	112,749	-119,101	-526,528
Closing General Fund Balance 31st March	1,113,891	1,226,640	1,107,539	581,012
Earmarked Reserves Position (Excluding Special Expenses)				
Opening Earmarked Reserve Balances 1st April	3,504,506	3,541,620	3,886,990	4,219,050
Transfer to Reserves	1,202,534	768,000	768,000	768,000
Use of Reserves	-1,165,420	-422,630	-435,940	-328,940
Closing Earmarked Reserves Balance 31st March	3,541,620	3,886,990	4,219,050	4,658,110
Total General Fund Reserves and Balances	4,655,511	5,113,630	5,326,590	5,239,122
Net Budget Requirement	10,248,194	9,941,263	9,736,847	9,428,753
Minimum Balance Requirement	1,024,819	994,126	973,685	931,849
General Fund Surplus/Deficit*	89,071	232,514	133,855	-350,837

*this is the difference between the general fund balance and the minimum balance requirement.

The transfers and use of earmarked reserves is to be confirmed, the table contains an estimate of use and assumes 2018/19 movements are repeated in 2018/19.