Committee: **Cabinet**

Agenda Item

13

Date: **18 February 2014**

Title: **Medium Term Financial Strategy**

Portfolio Holder **Councillor Robert Chambers**

Summary

1. The purpose of the Medium Term Financial Strategy is to ensure the ongoing financial health and stability of the Council. The Strategy looks ahead in order to anticipate issues that may arise in the Council's finances. This enables measures to be taken and plans to be put in place ahead of the issues arising.

2. The Council is in a strong financial position, currently insulated from the widespread problems in local government due to a combination of prudent financial management and New Homes Bonus.

3. Reasonably reliable forecasts of costs, income and Council Tax can be made, but it is not possible to forecast with any degree of certainty what will happen to Government funding.

4. If there is a change in the system of local government funding, possible regardless of the General Election outcome, it is unlikely (but not impossible) that any significant changes will impact until the year 2017/18.

5. The Council can have reasonable confidence that in the next three financial years (2014/15, 2015/16, 2016/17) its total income will exceed the forecasted budget. This gives opportunities to make meaningful investment in projects that benefit local communities and businesses.

6. However, it is absolutely essential that the Council does this in a prudent and sustainable way, and avoids making ongoing revenue commitments.

7. During this three year period the Council should also give active consideration to investing in cost reduction and/or income generation schemes, in case there are problems from 2017/18 onwards. A relevant analogy to use is "repairing the roof while the sun shines".

8. There is material uncertainty about the ongoing amount of funding that may or may not be available under the New Homes Bonus scheme. Scenario analysis suggests that the difference between the best case scenario and the worst case scenario is around £5 million of funding per annum by 2019/20.

9. This means that by the end of the decade, the range of possible forecasted positions varies wildly from an in-year surplus of £1 million to an in-year deficit of £4 million.

10. The actuality will probably be somewhere between these two positions but it is not possible to gauge where the line will be.

11. Because of this material uncertainty from 2017/18 onwards, the Council must use the intervening three years to ensure it is ready to meet potentially challenging scenarios.

12. The Scrutiny Committee reviewed the report on 6 February and unanimously approved the recommendation. In doing so, the Committee discussed the following:

- The need to reduce the Council's revenue dependency on New Homes Bonus, because of the uncertainty surrounding this funding stream.

- The Council needs to determine what its core business and services are, to inform decisions about prioritising resources.

- The importance of supporting the local economy in order to safeguard and grow the Council's share of business rates income. Appeals and refunds outside of the Council's control are a risk to this funding.

- When savings are needed cost savings are considered to be more likely to deliver the required scale of bottom line reductions than income generation, although all avenues need to be explored.

Recommendations

13. The Cabinet is requested to approve, for recommendation to Full Council, the Medium Term Financial Strategy as set out in this report.

Financial Implications

14. Detailed in the report.

Background Papers

None.

Impact

Communication/Consultation	None
Community Safety	None
Equalities	None
Health and Safety	None
Human Rights/Legal Implications	The Council has a legal duty to set a balanced budget.
Sustainability	None
None Ward-specific impacts	None
Workforce/Workplace	None

Forecasting the Council's Budget Requirement

15. It is relatively straightforward to forecast what the Council's costs and income will be, based on extrapolating the 2014/15 budget into future years, using prudent assumptions about inflation.

16. A five year budget model has been prepared. Where actual increases or reductions are not already known, the following annual inflation assumptions have been used:

Budget item	Annual inflation assumption used	Approx value of each 1% change
Salaries	1%	£87,700
Employer's pension	0.9% of salary	£84,700
Other staff costs	0%	£5,700
Members allowances	1%	£3,000
Utilities & fuel	5%	£6,300
Supplies & services (contractual)	3%	£31,900
Supplies & services (non-contractual)	0%	£14,900
Fees & charges income (except car parking)	2%	£32,900
Car parking income	0%	£8,600
Benefits case load	0%	£800
Benefits rent increases	5%	£800
Demand growth	£50,000 cumulative additional spend per year	n/a

17. The model also assumes that during the next few years, the Government will proceed with its policy intention to transfer Housing Benefit to the Universal Credit scheme. The model makes assumptions that benefits expenditure and related DWP subsidy grant income will be progressively removed from the Council's budget during the next few years. This has the effect of reducing gross expenditure and gross income, but the bottom line effect is slight because 98% of expenditure is met by grant.

18. Other assumptions:

- No changes to the Council's priorities; existing levels of service provision to continue.
- Capital financing costs based on the draft five year capital programme and allied financing strategy.

- Recharge of costs to HRA to remain at the current level.

- Investment income will remain constant at £50,000 per annum.

- Collection Fund balance will be zero from 2015/16 onwards (currently £256,000 surplus).

- Pension Fund deficit payment for 2014/15, 2015/16 and 2016/17 in line with Cabinet decision of 5 December i.e. pay three years up front, using reserves to equalise the hit to the bottom line.

19. Below is a summary of the budget model. It can be seen that after removing three large one off items in the 2014/15 budget (pension deficit payment, Strategic Initiatives Fund and Access Fund), the budget reduces significantly in the second year, and increases subsequently due to inflationary impacts.

	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000
Gross service expenditure	33,843	33,062	29,606	23,453	18,505
Gross service income	-24,920	-23,872	-20,265	-13,892	-8,713
Demand growth	0	50	100	150	200
Net service expenditure	**8,923**	**9,240**	**9,441**	**9,711**	**9,992**
Capital financing costs	1,611	1,365	1,317	1,366	1,329
Pension fund deficit	1,121	0	0	400	425
Recharge to HRA	-1,464	-1,450	-1,450	-1,450	-1,450
Other corporate items	-199	57	57	57	57
Total budget	**9,992**	**9,212**	**9,365**	**10,084**	**10,353**
Reserves transfer to cover pensions	-748	374	374	0	0
Creation of Strategic Initiatives Fund	1,000	0	0	0	0
Creation of Access Fund	200	0	0	0	0
Other reserves transfers	135	40	20	20	20
FORECASTED BUDGET REQUIREMENT	**10,579**	**9,626**	**9,759**	**10,104**	**10,373**

Forecasting Government Funding – Local Government Finance Settlement

20. The Local Government Funding Settlement now comprises two main elements:

    - Core "Formula" Funding (Revenue Support Grant)
    - Localised Business Rates share.

21. **Revenue Support Grant** has been cut from £4.1m in 2010/11 to £1.6m in 2014/15, a 60% reduction. This trend will continue: illustrative figures published for 2015/16 show that UDC Revenue Support Grant shall be £1.2m which is a 72% reduction on 2010/11 levels. Within a few years, it is expected that Revenue Support Grant will reduce to zero.

£000	**2014/15** Provisional	**2015/16** Illustrative	**2016/17** Forecast	**2017/18** Forecast	**2018/19** Forecast
Revenue Support Grant	1,642	1,155	750	500	250

22. **Localised Business Rates** represents the Council's share of the gross business rates paid by Uttlesford businesses, which totals about £40m.

23. The Council does not set the business rates or business premises rateable values (RV). This is done by central government and the Valuation Office.

24. From the gross amount collected, 50% is paid over to central government, 9% to the County Council and 1% to the Fire Authority. The remaining 40% is the starting point for determining the district council share.

25. The Government determines what it thinks each Council needs as a funding baseline – for UDC, this is £1,382,000 for 2014/15. If the 40% share of the gross is larger than this baseline figure, the excess has to be paid to central government as a tariff: for 2014/15, UDC must pay a tariff of £14,409,000.

26. If the gross amount is reduced, for example because of bad debts or successful appeals which reduce rateable values, the proportionate shares are reduced. A safety net operates which means the amount retained by UDC cannot fall below 92.5% of the baseline level – this means that the minimum business rates income in 2014/15 shall be £1,279,000.

27. If the gross amount increases, for example because of business expansion arising from a healthy local economy, then the proportionate shares also increase. A levy system operates which means that 50% of the excess above the baseline level has to be paid to central government.

28. In all foreseeable scenarios, the proportion of business rates collected actually retained by UDC is about 3% to 4% of the gross. The system is illustrated below.

£000	Deficit scenario	Baseline scenario	Growth scenario
Gross business rates	38,000	39,479	41,000
Central government share (50%)	-19,000	-19,740	-20,500
County/Fire shares (10%)	-3,800	-3,948	-4,100
District share (40%)	**15,200**	**15,791**	**16,400**
Tariff paid to central government	-14,409	-14,409	-14,409
District pre levy income	**791**	**1,382**	**1,991**
Levy paid to central government (50% of excess over baseline of 1,382)	-	-	-305
Safety net payment received from central government (to ensure amount received is 92.5% of baseline)	488	-	-
TOTAL RETAINED BY UDC	**1,279**	**1,382**	**1,686**
% of gross retained by UDC	3.4%	3.5%	4.1%
% of gross retained by County/Fire	10.0%	10.0%	10.0%
% of gross retained by central government	86.6%	86.5%	85.9%

29. In order to make prudent assumptions for MTFS purposes, it is necessary to consider the risks to the gross amount posed by appeals against rateable value. The government advises that an assumption can be made that 5% of the pending appeals list will be successful. There are pending appeals by the airport's former owners, and new appeals by the airport's current owners are likely. With an annual rates bill for the airport alone of £14.4 million, a successful appeal at 5% would reduce the gross by £0.7 million. If the appeal is backdated, then a large seven figure sum could potentially be at risk.

30. Officers have carried out analysis which suggests that the total level of pending appeals, plus those expected to arise, would have the effect of offsetting any growth and reducing the gross business rates income such that the district council retained share is likely to be at the safety net level.

31. Although the current occupants of the Diamond Hangar site, the second largest rating assessment, are up to date with their account at the time of writing, within the past year the Council has had to write off £1.4 million of bad debt at this site, and risks clearly remain.

32. For the reasons above, the MTFS assumes a safety net level of business rates income as follows (inflationary adjustments made):

£000	**2014/15** Provisional	**2015/16** Illustrative	**2016/17** Forecast	**2017/18** Forecast	**2018/19** Forecast
Localised business rates	1,279	1,314	1,340	1,367	1,394

Forecasting Government Funding – New Homes Bonus

33. The New Homes Bonus scheme rewards councils for enabling housing growth in their areas, by paying an amount of grant per dwelling equal to the average council tax charge for six years. Credit is also given for bringing empty homes into use, and for delivering new affordable housing. In two-tier areas 80% of the NHB award is paid to the district council and 20% to the county council.

34. NHB is progressively supplanting core Government funding, such that councils without housing growth now have severe reductions in their funding and many are in financial difficulty. UDC has benefited from NHB, with awards exceeding the amounts cut from core funding. Accordingly UDC is one of the few councils in the country with a net increase in Government funding.

35. NHB is a six year scheme which runs from the financial years 2011/12 to 2016/17. There are no indications about what will happen from 2017/18 onwards. Accordingly, there is material uncertainty about the future. If NHB is significantly reduced or cancelled, UDC will be in serious financial trouble and would be obliged to consider budget and service reductions on a scale similar to that currently being made by other councils

The future of New Homes Bonus

36. NHB has become an embedded part of local government finance and many councils rely on it. This is also true of UDC: of the £2.9 million of NHB for 2014/15, approximately half has been subsumed into the revenue budget with the other half being used for one-off projects (e.g. Strategic Initiatives Fund).

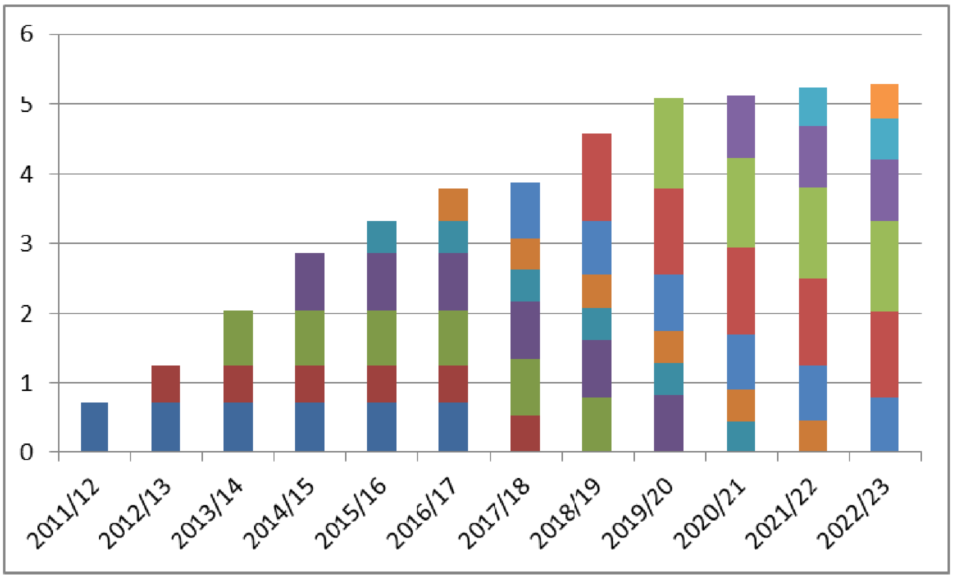
37. Because NHB is embedded, a cancellation of the scheme after year six (2016/17) is unlikely, because of the chaos this would cause. Some reform will happen: the current Government has announced a review of the scheme during 2014; deductions from NHB for houses built following appeal are likely, to stop councils benefiting financially from turning down housing developments for non-planning reasons.

38. At the LGA Finance Conference on 8 January the Local Government Minister declined to comment on what may happen after 2016/17. The Shadow Local Government Minister indicated that he feels NHB to be unfair and that a Labour Government would reform the system.

39. An unamended scheme would proceed as follows for UDC, based upon estimates of new housing currently being used by the UDC planning service. The housing completion year which informs NHB awards is October to September i.e. new housing from October 2013 to September 2014 will determine the amount of NHB for 2015/16. Planning service forecasts are in financial years so need to be disaggregated into two halves.

	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
Housing year 1st half	196	114	211	391	571	444	243	195	190
Housing year 2nd half	114	211	391	570	443	243	194	189	214
Total new homes	**310**	**325**	**602**	**961**	**1,014**	**687**	**437**	**384**	**404**
Empty homes brought into use	50	40	30	20	20	20	20	20	20
Total new homes	**360**	**365**	**632**	**981**	**1,034**	**707**	**457**	**404**	**424**
NHB £k	544	551	954	1,481	1,561	1,068	690	610	640
Affordable homes premium £k	20	21	39	62	65	44	28	25	26
Total NHB	564	572	993	1,543	1,626	1,112	718	635	666
Share for UDC (80%).	**451**	**458**	**794**	**1,234**	**1,301**	**890**	**574**	**508**	**533**

40. Each annual award is granted for six years before dropping out, replaced by a new year's award. Including awards already made since 2011/12, the funding has built up from £0.7m in the first year, to £2.9m in 2014/15. If the scheme continues unamended, the annual NHB amount will reach £3.8m by 2016/17 and £5.1m by 2019/20.

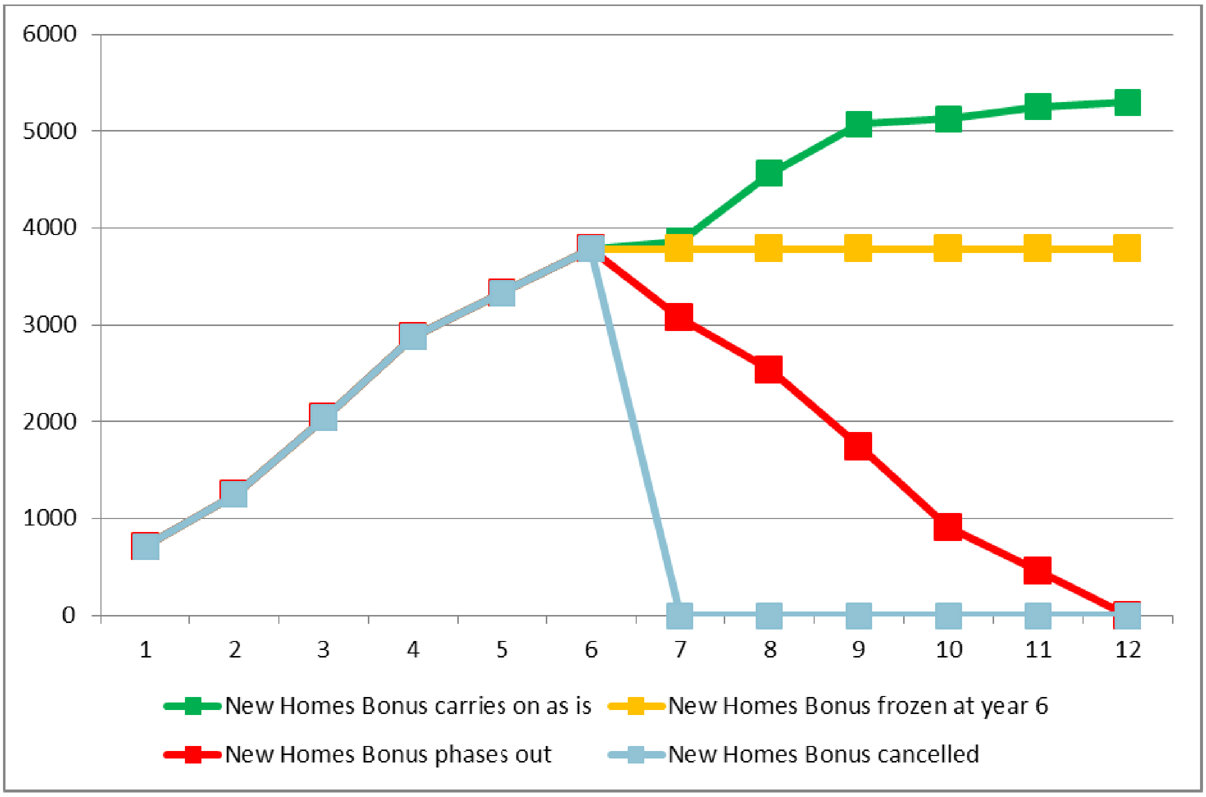


41. There are many variables at play here: once again, we do not know what will happen to the scheme after 2016/17. In addition, the housing forecasts are themselves variable, and the outcomes are subject to the planning process, the houses have to be approved, built, sold and occupied. It would be dangerous to rely on the forecasts above.

42. Four possible scenarios can be anticipated:

Scenario A	New Homes Bonus scheme carries on without amendment. Amounts paid in years 7-12 based upon housing growth.
Scenario B	New Homes Bonus funding is frozen at year 6 levels, with the same year 6 amount paid in years 7-12.
Scenario C	New Homes Bonus is phased out during years 7-12.
Scenario D	New Homes Bonus scheme is cancelled, no funding paid after year 6.

43. The four scenarios produce vastly differing outcomes in terms of the funding receivable by UDC: for all scenarios a figure of £3.8m is expected in 2016/17 (year six), but in 2017/18 (year seven), the range is £zero to £3.9m. By 2019/20 (year nine) the range is £zero to £5.1m.



44. Until better information becomes available, the budget model shall be based on Scenario A, an unamended scheme:

£000	2014/15 Provisional	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast
New Homes Bonus	2,877	3,328	3,786	3,866	4,566

45. Because of the material uncertainty, the Medium Term Financial Strategy adopts the following principles:

- The Council shall plan to reduce the amount by which its revenue budget is funded by New Homes Bonus
- The Council shall avoid funding ongoing revenue commitments from its New Homes Bonus funding
- The Council shall use New Homes Bonus funding for capital projects and one-off items that has tangible and lasting benefit to the local community and/or the Council.

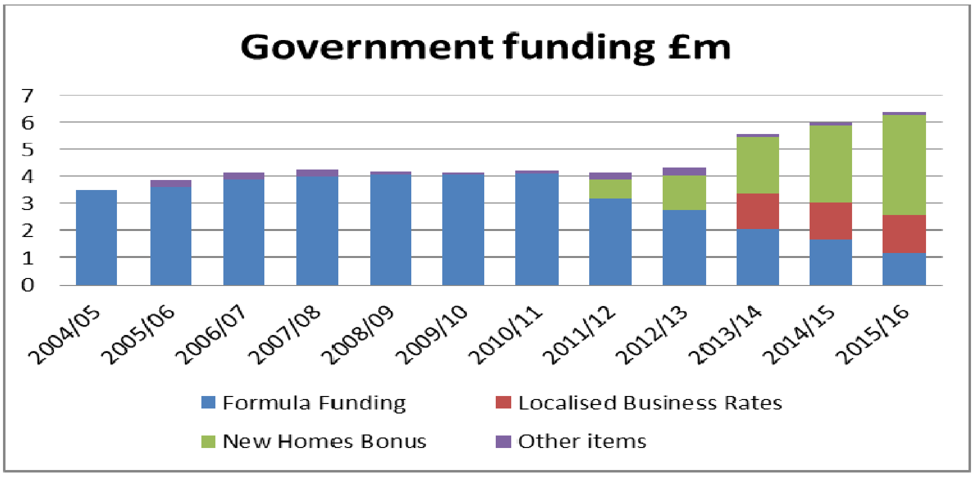
Other items

46. **Council Tax Freeze Grant:** the Government has confirmed that it will pay a Freeze Grant equivalent to a 1% Council Tax rise to any Council that does not increase its Band D figure in 2014/15 and 2015/16. This is worth approx. £50,000 each year, so the two Freeze Grants together will be worth £100,000 pa from 2015/16. The Government has stated that this will be ongoing funding, rolled into the base settlement. It is possible that as cuts to core funding continue, this sum will also be reduced.

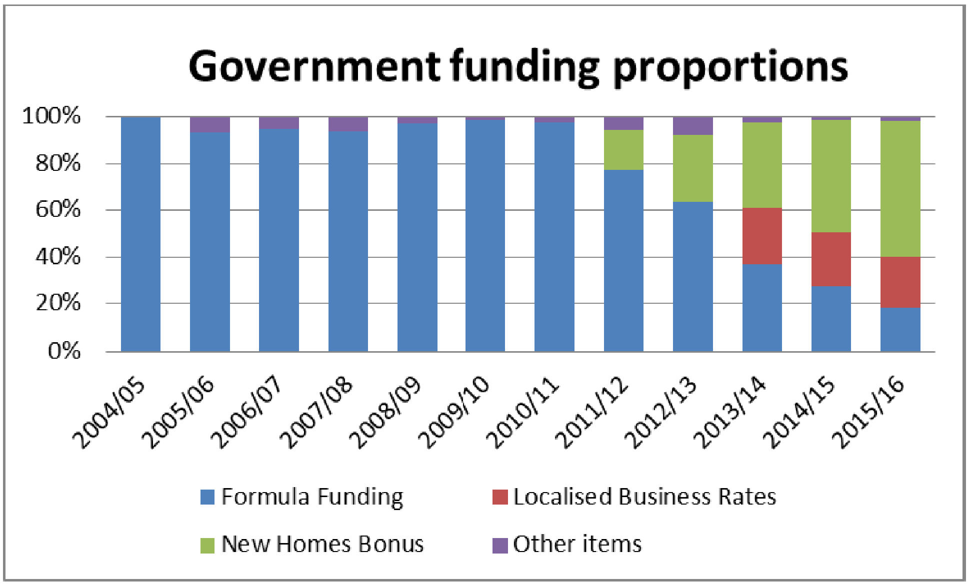
47. The 2014/15 provisional settlement includes a few minor one off items totalling £36,000, with one off items totalling £12,000 in the illustrative 2015/16 figures. The model assumes no additional items beyond 2015/16.

Shift in the balance of Government funding

48. The Council's funding from Government has increased in recent years:



49. What is striking is that core “formula” funding is reducing at a fast rate and this is expected to continue. The proportion of the Council’s funding coming from core funding has reduced from 100% in 2004/05 to 27% in 2014/15. This trend is expected to continue, as illustrative announcements for 2015/16 would seem to confirm.



50. The Council is vulnerable in the event of any significant reform of New Homes Bonus, and/or any variables that could slow down or reduce the amount of new housing.

Forecasting Council Tax income

51. Council Tax income is a function of two key variables: Taxbase and the UDC Band D figure.

52. The taxbase is a measure of the dwellings in the district that are liable to pay Council Tax. The number of dwellings is counted and adjustments made for exemptions and discounts, for example, single persons discounts, empty homes discounts and Local Council Tax Support discounts. Taxbase is expressed as a total of “Band D Equivalents” – each property converted to Band D according to the statutory ratios:

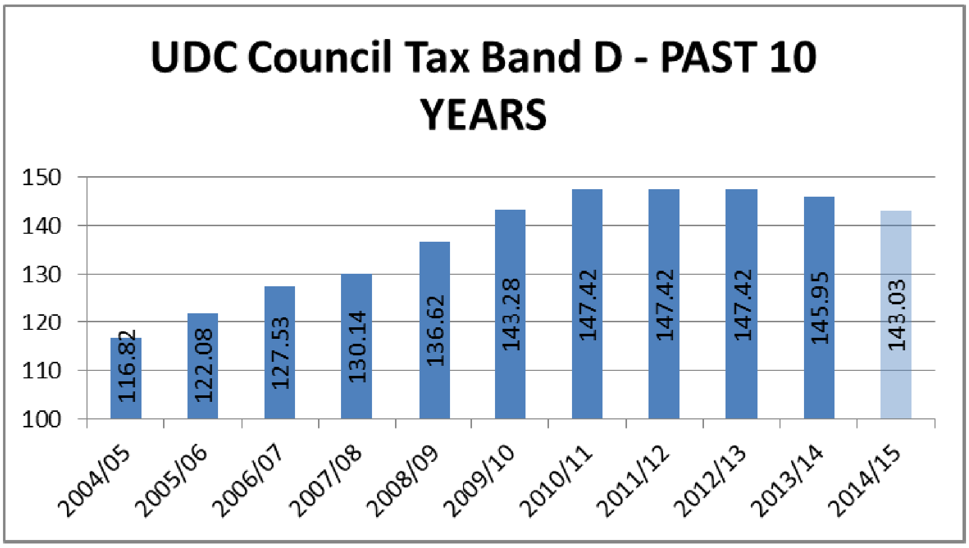
Band	Ratio to Band D
A	6/9ths
B	7/9ths
C	8/9ths
D	9/9ths
E	11/9ths
F	13/9ths
G	15/9ths
H	18/9ths

53. There is a direct correlation between housing growth and taxbase growth. Taxbase predictions for the MTFS are consistent with the housing forecasts used to forecast NHB.

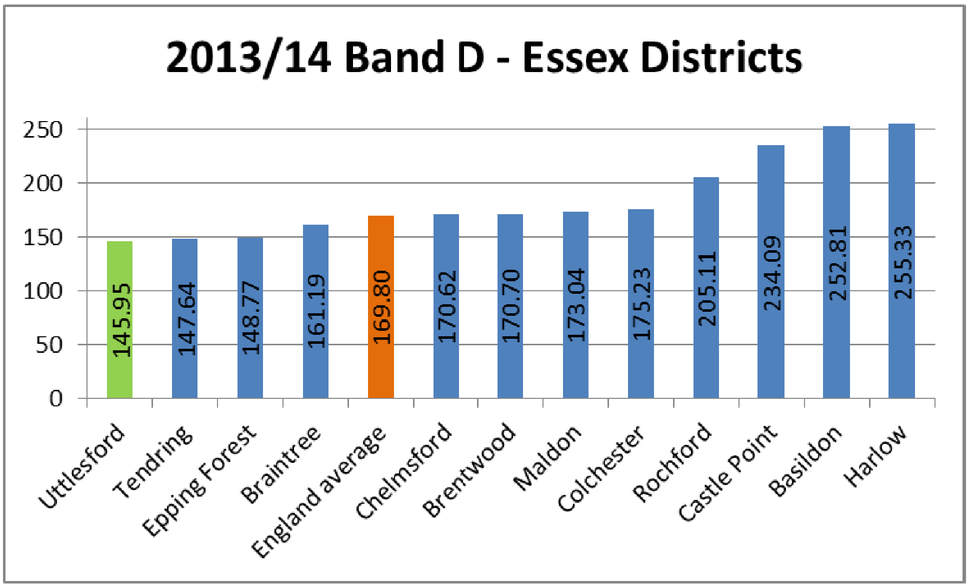
54. Also affecting taxbase is the level of discounts given. The MTFS model assumes a neutral movement in these discounts. During the past couple of years substantial effort has been made to review Single Persons Discounts and remove those found to be incorrectly applied. The Council has decided to remove second homes discounts and reduce empty homes discounts, all of which is taken into account in the 2014/15 taxbase calculation so significant movement in not expected in 2015/16. LCTS caseload is reasonably steady and actually declining slightly. The Council has not yet begun to consider whether any changes to its LCTS scheme will be made in 2015/16.

55. The budget and MTFS assumes that the Council will approve the Cabinet's recommendation to cut its Band D Council Tax by 2% in 2014/15. For future years, decisions will be taken in the February of each year according to the needs and circumstances arising at that time. Having taken informal guidance from the Finance Portfolio Holder, the MTFS includes a planning assumption that UDC Band D Council Tax will be frozen in each of the following four years.

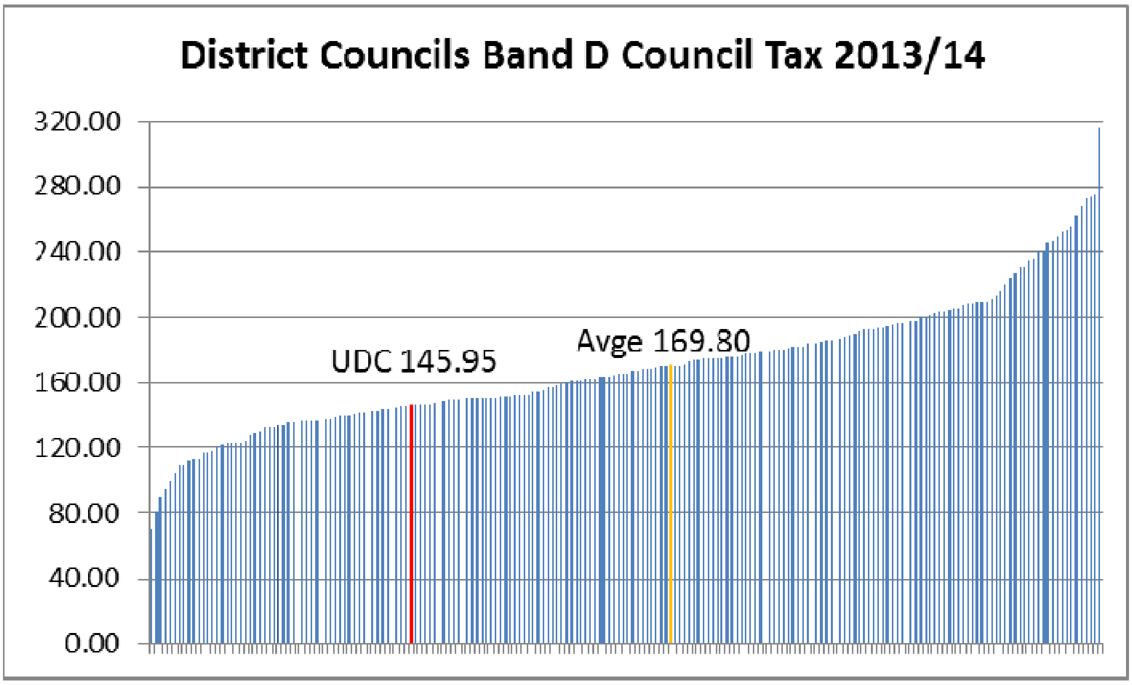
56. Below the UDC Band D Council Tax over the past 10 years is shown. Incremental rises continued until 2010/11 since which the Band D has been frozen twice and cut in 2013/14, with a second cut intended for 2014/15.



57. The current (2013/14) UDC Band D figure of £145.95 is the lowest in Essex and is below the England average of £169.80.



58. Out of 201 district councils in England the UDC 2013/14 Council Tax is 55th lowest which means that 146 councils (73%) have a larger Band D.

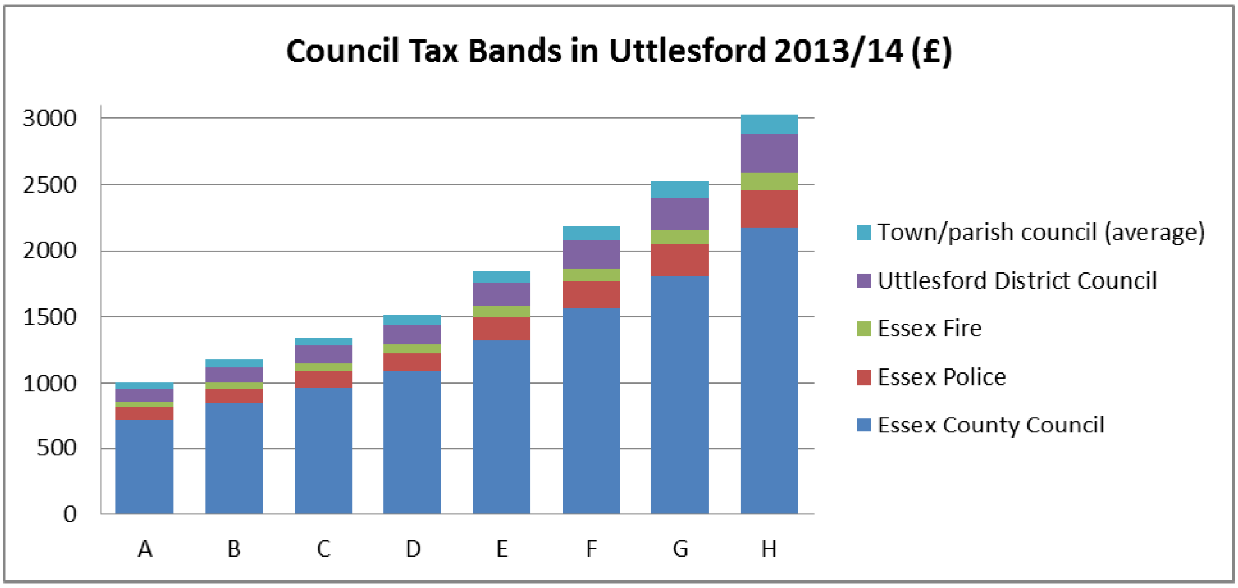


59. Based on taxbase forecasts and a Band D figure frozen at the 2014/15 level (itself a cut of 2% from the 2013/14 figure), the forecasted Council Tax income is shown below.

	2014/15	2015/16	2016/17	2017/18	2018/19
Taxbase (Band D equivalents)	32,825.6	33,181.5	33,554.6	34,245.7	35,349.0
UDC Band D Council Tax	£143.03	£143.03	£143.03	£143.03	£143.03
Council Tax income £000	**4,695**	**4,746**	**4,799**	**4,898**	**5,056**

60. By law, the Council must set a net budget each year which does not exceed the forecasted Council Tax income.

61. It is sometimes not appreciated that the UDC Band D represents a fraction under 10% of the total Council Tax paid by residents. The rest comprises Essex County Council (72%), Essex Police Commissioner (9%), Essex Fire Authority (4%) and Town/Parish councils (5% average).

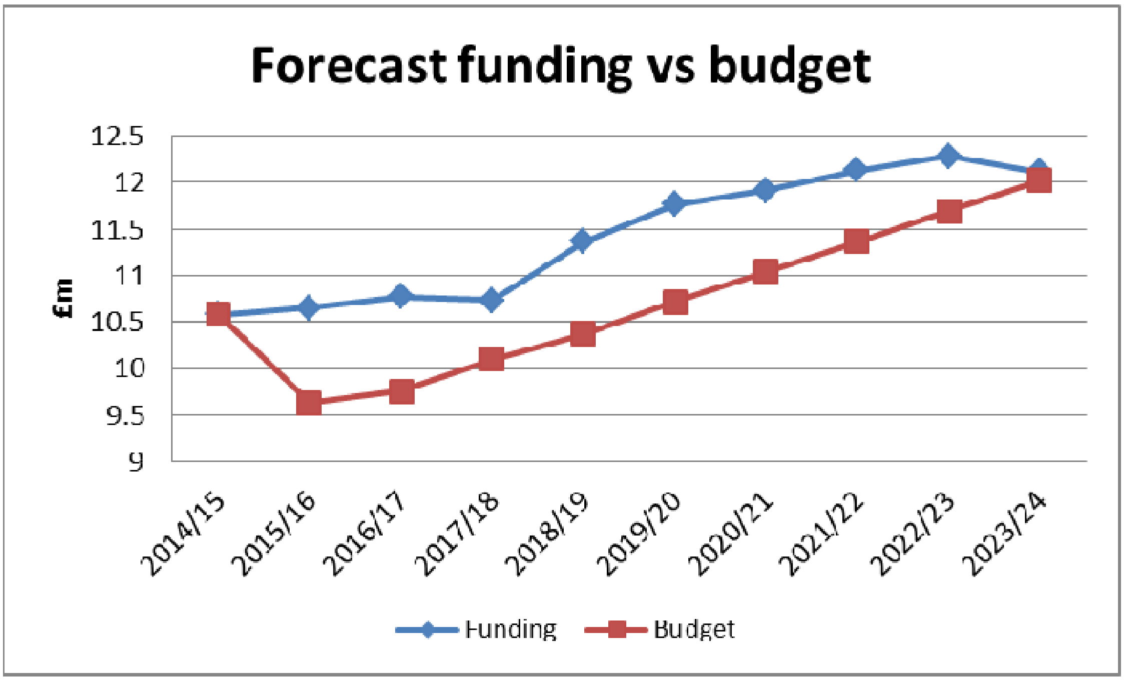


Putting this all together

62. Based on an unamended NHB scheme, the five year budget model is summarised below. It shows a large surplus in each year.

£000	2014/15	2015/16	2016/17	2017/18	2018/19
Forecasted budget	**10,579**	**9,626**	**9,759**	**10,104**	**10,373**
Revenue Support Grant	-1,642	-1,155	-750	-500	-250
Localised Business Rates	-1,279	-1,314	-1,340	-1,367	-1,394
New Homes Bonus	-2,877	-3,328	-3,786	-3,866	-4,566
Other Government funding	-86	-112	-100	-100	-100
Total Government funding	**-5,884**	**-5,909**	**-5,976**	**-5,833**	**-6,310**
COUNCIL TAX REQUIREMENT	**4,695**	**3,717**	**3,783**	**4,271**	**4,063**
Council tax income	-4,695	-4,746	-4,799	-4,898	-5,056
In year surplus	**0**	**-1,029**	**-1,016**	**-627**	**-993**

63. Once again, if the NHB continues unamended, the Council's finances are forecasted to be in a strong position for the foreseeable future; extrapolating the budget model across a 10 year period shows that funding (Government funding plus Council Tax) would exceed the budget by reasonable margin in every year until 2023/24:



64. However, as has been discussed, there is significant variability especially regarding NHB. It is necessary to consider other scenarios.

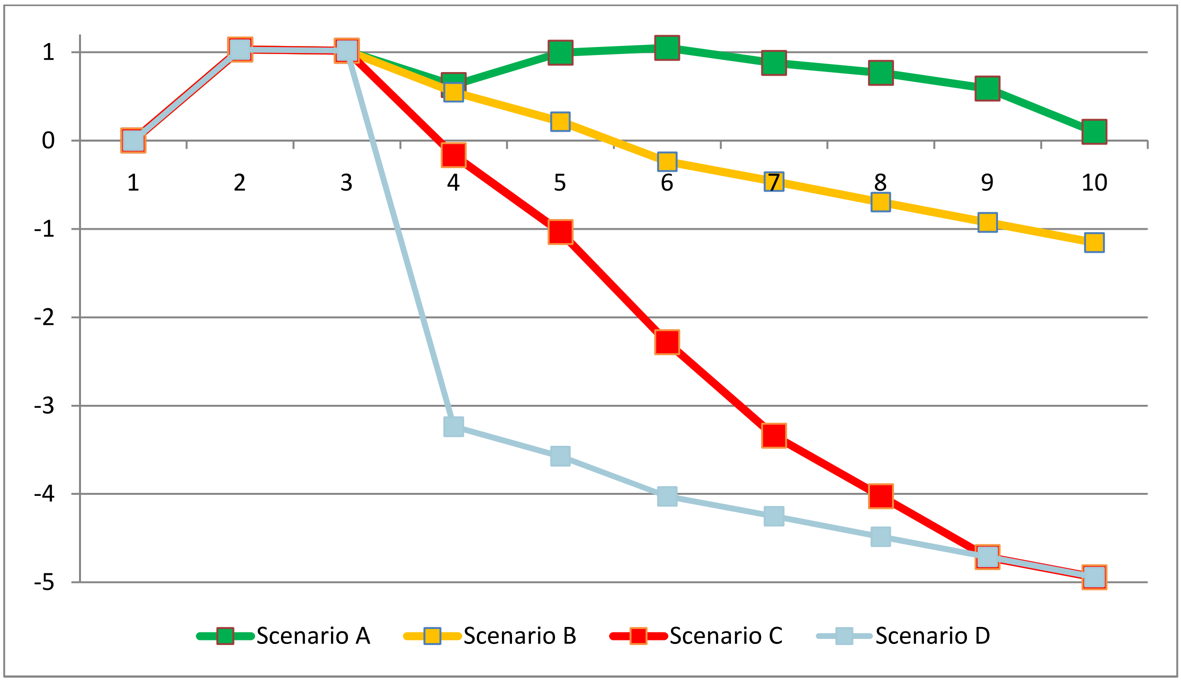
Scenario planning

65. As a reminder the following four scenarios are worthy of consideration.

Scenario A	New Homes Bonus scheme carries on without amendment. Amounts paid from 2017/18 are based upon housing growth.
Scenario B	New Homes Bonus funding is frozen at 2016/17 levels, with the same amount paid in subsequent years.
Scenario C	New Homes Bonus is phased out during the six years commencing 2017/18.
Scenario D	New Homes Bonus scheme is cancelled, no funding paid after 2016/17.

66. The difference between the best case Scenario A and worst case Scenario D is a reduction in funding of £3.9 million in 2017/18 and over £5 million by 2019/20.

67. In each scenario, ongoing cuts in core funding will continue, as will cost pressures in the Council's budget. The chart below shows the forecasted in year surplus or deficit for each of the four scenarios over the next ten years.



68. Only in the first two scenarios will the Council's budget retain its forecasted surplus position from 2017/18 onwards (year 4). By 2019/20 (year 6), in only the best case scenario is a surplus predicted.

69. In the event of Scenario C (NHB phased out) or Scenario D (NHB cancelled), the Council faces substantial deficits in its budget from 2017/18 onwards.

70. The Council must therefore plan to reduce its revenue budget dependency on New Homes Bonus before 2017/18.

Reserves

71. The Council is required to establish reserves to meet expected future financial commitments and to ensure a safe level of contingency in the event of unforeseen events. This is discussed in the report later on the agenda, "Robustness of Estimates and Adequacy of Reserves".

72. The Council has established the following contingency reserves:

Working Balance	Reserve to provide a minimum safe contingency level. The Council's current policy is to maintain this at a level equivalent to the sum of 2% of expenditure and 2% of income; around £1.2 million. This is subject to annual advice provided by the Section 151 Officer under Section 25 of the Local Government Act 2003. As gross expenditure and income reduce in line with Housing Benefit caseload migrating to Universal Credit, opportunities may arise to consider adopting a lower minimum safe contingency level, potentially allowing an element of the existing Working Balance to be reallocated for other purposes.
Budget Equalization	A reserve to smooth the effect of budget pressures, to give time for strategic changes to be implemented in an ordered manner
Change Management	To fund the one off costs of improvement projects and spend-to-save schemes
Council Tax Freeze Grant	Reserve to help with the management of fluctuations in local government funding
Local Government Resource Review	Contingency to help smooth the effect of fluctuations and cost pressures arising from Government changes to local government finance. A key reserve to mitigate risks relating to the stability of New Homes Bonus funding.
Municipal Mutual	Estimated possible liabilities relating to the insolvency of Municipal Mutual Insurance

73. The Council has established the following service specific reserves:

Access Fund	A new proposal for 2014/15, monies earmarked to fund community infrastructure improvements, in advance of S106 receipts
Economic Development	To fund economic development initiatives
Elections	A reserve used to equalize the cost of district council elections over four years
Emergency Response	To cover costs falling on the Council as a result of a civil emergency
Hardship Fund	To fund accommodation for homeless people and to support voluntary organisations
Homelessness	To cover unbudgeted additional demand for homelessness services
Licensing	Reserve to absorb excess of costs over income in relation to taxi licensing services; the reserve is expected to reduce to zero by the end of 2014/15.
Neighbourhood Front Runners	Funding for the neighbourhood front runners scheme
New Homes Bonus Community Projects	Monies committed for community projects
New Homes Bonus Contingency	Monies that may be made available for community projects, subject to greater certainty over local government funding
Planning Development	To meet one off costs arising from major planning issues
Strategic Initiatives	A new proposal for 2014/15, monies earmarked to fund strategic initiatives to benefit the local economy and communities, and to effect changes necessary to reduce the Council's revenue dependency on New Homes Bonus
Waste Management	Funding to help manage unbudgeted costs or income losses that arise in the waste service

74. Based upon the projected use of reserves included within the five year budget model, the following table sets out the forecasted reserve balances during the period covered by the MTFS.

£000	**31 March 2014**	**31 March 2015**	**31 March 2016**	**31 March 2017**	**31 March 2018**	**31 March 2019**
Working Balance	1,214	1,214	1,214	1,214	1,214	1,214
Other Contingency reserves	3,432	2,807	3,281	3,655	3,655	3,655
Service specific reserves	2,301	2,313*	2,253*	2,273*	2,293*	2,313*
Total	**6,947**	**6,334***	**6,748***	**7,142***	**7,162***	**7,182***

*Excludes £1m Strategic Initiatives Fund and £200,000 Access Fund, which is intended will be spent or committed during 2014/15

75. Any unused flexibility would be added to the reserves, for example if the forecasted £1,029,000 of flexibility in 2015/16 was not used, it would increase the total reserves as at 31 March 2016 to £7,777,000, and so on.

76. The Council has reached the point whereby further increases in reserves levels cannot be justified on financial management grounds. Sufficient contingency reserves exist to meet foreseeable scenarios, and service specific reserves are enough to meet known commitments.

77. The table shows that total reserves are expected to remain reasonably stable during the MTFS period. This should ensure that the Council continues to enjoy stability, allowing time to plan for difficulties expected in the longer term and to take the necessary steps to ensure continued stability after 2016/17.

Strategic Solutions Workstreams

78. In 2009 the five workstreams were established and from 2010 a small corporate team was set up to secure the savings needed by the MTFS. The Workstreams are:

- Shared Services
- Devolution
- Income Generation
- Service Reduction
- Efficiency Savings

79. The workstreams have been successful to date, with cumulative annual savings of around £2.5 million delivered by 2013/14.

80. There is more to do however. Because of the inherent volatility and conjecture in the MTFS projections, and in particular the risks highlighted for the post 2016/17 period, the Council must continue efforts to ensure it is well placed to meet future challenges.

81. The priorities for the workstreams in 2014/15 are as follows:

- Asset Management
- Mail services
- Trading company – primarily around waste services
- Back office costs
- Online service delivery.

MTFS: Guiding principles

82. The Council will continue to exercise prudence and discipline in its financial management. Costs will be controlled and kept under review, and income will be maximised wherever appropriate. Work will continue to identify ways to deliver services at a lower cost.

83. During the MTFS period the Council will seek to reduce the amount of revenue dependency on New Homes Bonus and will not increase the dependency from the 2015/16 budget onwards. The goal is to reduce or minimise the dependency before 2017/18 so that in the event of New Homes Bonus being withdrawn or substantially reduced, the scale of the budget reductions or income generation necessary shall be manageable.

84. Inevitably, resource allocation decisions will be required based upon changing circumstances and priorities. Some budgets will need to be increased, and some reduced. The Council will seek to safeguard those activities that it considers to be highest priority as stated in the Corporate Plan.

85. The Council may make savings in priority areas only if there is no significant adverse impact to quality and level of service provision. For example, the Council may find a more efficient means of delivering the service. Otherwise, the Council will not make savings that result in diminution in service quality in these areas unless there is no alternative e.g. inability to balance the budget.

86. The Council acknowledges the need to provide statutory services, and in many cases these will be consistent with Corporate Plan priorities. Where the link between the need to provide a statutory service and Corporate Plan priorities is not as strong, the Council will provide a level of service consistent with affordability. Efficiency gains and partnership working will be explored as means of providing statutory services to an acceptable level at a lower cost. In some circumstances, the Council will consider reducing the level of service in order to make savings and redirect resources to the Council's highest priorities.

87. Subject to the above, unavoidable and essential growth items will be funded by the making of savings from elsewhere within the Council budget, or the

generation of additional income. The Council will not make ongoing revenue commitments from non-recurring funding sources

88. The Council will manage its budget as a corporate whole, if necessary transferring money from one activity to another if this is what is necessary to match limited resources to the highest priorities.

89. In ordinary circumstances the Council will not use reserves to fund any ongoing expenditure. In exceptional circumstances, the Council may use reserves for one-off items or to alleviate budget pressures within the context of an overall plan to achieve a balanced budget but will seek opportunities to replenish reserves consumed in this way.

90. The Council will ensure that all reserves are held for clearly defined purposes and the amounts kept under review.

91. Investment in new initiatives and service improvements will be subject to a value for money assessment and a post-implementation review to assess whether the intended benefits were achieved.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Actual experience differs from the assumptions in the budget and business plan	4 some variation is inevitable	3 sums involved are potentially significant	Ensure MTFS has element of flexibility Maintain adequate reserves Robust monitoring Half yearly review by Cabinet

1 = Little or no risk or impact
2 = Some risk or impact – action may be necessary.
3 = Significant risk or impact – action required
4 = Near certainty of risk occurring, catastrophic effect or failure of project.