Committee:	**Cabinet**	**Agenda Item**
Date:	**17 February 2015**	11
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, 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 therefore have reasonable confidence that in the next two financial years (2015/16 and 2016/17) its total income will exceed the forecasted budget. This gives opportunities in the first year to make meaningful investment in projects that benefit local communities and businesses. However, it is absolutely essential that the Council does this in a prudent and sustainable way, and avoids making ongoing revenue commitments.

6. The forecast surplus in the second year (2016/17) should be put into reserves to help offset future challenges.

7. During the next two years the Council should also give active consideration to investing in cost reduction and/or income generation schemes, in case there are challenges from 2017/18 onwards.

8. There is material uncertainty about the ongoing amount of funding that may or may not be available under the New Homes Bonus (NHB) scheme. The MTFS demonstrates the impact on the council budget should a 10%, 20% or 30% cut in NHB be implemented.

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

10. The Scrutiny Committee reviewed the budget reports on 10 February. Comments from the Committee are in a separate item on the agenda.

Recommendations

11. The Cabinet is requested to approve, for recommendation to Full Council, the Medium Term Financial Strategy as attached.

Financial Implications

12. 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

13. It is relatively straightforward to forecast what the Council's costs and income will be, based on extrapolating the 2015/16 budget into future years, using prudent assumptions about inflation.

14. 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	2%	£87,700
Employer's pension	0.9% of salary	£84,700
Other staff costs	0%	£5,700
Members allowances	1%	£3,000
Utilities & fuel	3%	£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

15. 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.

16. 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.

Strategic Solutions Workstreams

17. 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

18. The workstreams have been successful to date, with cumulative annual savings of around £2.7 million delivered by the end of 2014/15.

19. 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.

20. The priorities for the workstreams in 2015/16 are as follows:

- Asset Management
- Mail services
- Back office costs
- Online service delivery.

MTFS: Guiding principles

21. 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.

22. 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.

23. During the first two years of the plan the Council will endeavour to 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.

24. 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.

25. 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

26. 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.

27. 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.

28. The Council will ensure that all reserves are held for clearly defined purposes and the amounts kept under review as per the Reserves Strategy.

29. 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.