Committee:	**Council**	**Agenda Item**
Date:	**23 February 2017**	9
Title:	**Medium Term Financial Strategy 2017/18**	
Portfolio Holder:	**Councillor Simon Howell**	

Summary

1. The purpose of the Medium Term Financial Strategy (MTFS) 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 provisional settlement assumes that Local Authorities will maximise their council tax income, the current increase is capped at either 2% or £5. The Government has based the councils spending power on the maximum Council Tax increase which is £5, the 2017/18 budget is based on a 1.9999% increase (this has been rounded to 2% for presentational purposes) and the MTFS assumes a 2% increase for each year thereafter.

3. The Council is facing ever decreasing funding allocations, the phasing out of Revenue Support Grant by 2018/19, transition grant ending in 2018/19, reduction in Rural Services Delivery Grant in 2018/19 and significant reductions in New Homes Bonus. The Rural Services Network are lobbying the Government to address the shortfall in funding that rural districts are facing and the inequity of this compared to Urban areas.

4. The Council signed up for the Government's offer of a four year funding deal in October 2016, (97% of authorities have accepted the offer) and Government has confirmed its commitment to this ongoing. 2017/18 is the second year of the funding deal. The funding streams currently included that apply to this council are;

    - Revenue Support Grant
    - Business rates tariff and top ups
    - Rural Services Delivery Grant
    - Transition Grant

5. The Government proposed changes to the New Homes Bonus (NHB) scheme in a consultation paper issued in December 2015. The target set in the 2016/17 settlement was to reduce total payments from £1.5bn to £900m by 2019/20. The pressure on social care has meant the reductions have been moved forward with a planned reduction of £250m in 2017/18 to create the new adult social care fund. The outcomes from the consultation were expected in June 2016, these were received as part of the provisional statement in December.

- Legacy payments will reduce from 6 years to 5 years in 2017/18 and then to 4 years in 2018/19.

- A ‘deadweight’ factor or national baseline will be introduced in 2017/18; NHB allocations will include a reduction for natural growth of 0.4% (149 properties). This means that payments are made only on the increase in the number of houses which are above the national baseline (average national growth).

6. The original consultation also included proposals for no or reduced payments to authorities for houses built following a successful appeal and where an authority does not have an approved Local Plan. These elements have been deferred pending further consultation in 2017/18.

7. Revaluation of Business Rates (BR) hereditaments has been carried out in 2016. Following a technical consultation issued in September 2016 on proposed changes to the calculation of the revaluation adjustment, the Government are proposing three changes;

   - Section 31 grants (funding to reimburse the council for statutory rate relief) to be included in the BR income.

   - Adjustment of the calculation to take into account inflation only after the revaluation adjustment to tariffs and top ups

   - The multiplier to be revised;

     i. properties with a rateable value over £50,000, multiplier is 47.9 (previously over £18,000 at 49.7)

     ii. properties with a rateable value below £50,000, multiplier is 46.6 (previously to 48.4)

8. Two changes to business rates reliefs were announced and these have been previously fully funded by Section 31 grants. These new reliefs will continue to be funded by Section 31 grants in 2017/18 but there is no indication this will continue in future years.

   - Extension of the Rural Rate Relief from 50% to 100% (in line with Small Business Relief)

   - Reliefs for new fibre broadband businesses

9. The introduction of 100% Business Rates Retention is still expected to be implemented in 2019/20, although this is yet to be confirmed. The MTFS assumes a consistent level of Business Rates income for the 5 years as Government has said that the move to 100% retention will be fiscally neutral. The key questions that need to be confirmed are;

   - What extra responsibilities LA’s will be required to take on?

- Will the appeals risk continue to be managed locally or will there be a central pot?

- What will be included in the Local and Central list?

10. The Strategy was endorsed by the Scrutiny Committee on 7 February and approved by the Cabinet on 16 February for recommendation to the Council tonight.

Recommendations

11. The Council is requested to approve the Medium Term Financial Strategy as attached.

Financial Implications

12. Summary in the main body of this report and further detail is included in the Medium Term Financial Strategy.

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 2017/18 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
Salaries	1%
Employer's pension	1.1% of salary

Other staff costs	0%
Members allowances	1%
Utilities & fuel	3%
Supplies & services (contractual)	3%
Supplies & services (non-contractual)	0%
Fees & charges income (except car parking)	2%
Car parking income	0%
Benefits case load	-1%
Benefits rent increases	-1%
Demand growth	£50,000 cumulative additional spend per year from 2018/19

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 are based on the draft five year capital programme and allied financing strategy.

- Recharge of costs to Housing Revenue Account is based on actual cost apportionment of central and core services.

- Investment income continues to remain low due to the interest rate decline.

Efficiency and Income Opportunities

17. As part of the offer to accept the four year settlement the council was required to prepare an efficiency plan, this was a high level document and the council was not required to put in specific details of how this would be achieved. The original plan was submitted to Cabinet in October for approval and can be found at the following link Efficiency Plan

18. The Corporate Management Team is currently working on detailed plans to achieve the required efficiencies to ensure a balanced budget over the next 5 years. This includes actively seeking investment opportunities and income generating projects.

MTFS: Guiding principles

19. 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.

20. 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.

21. 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.

22. 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.

23. 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

24. 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.

25. 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.

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

27. 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.