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| Committee: | Scrutiny | Date: |
| Title: | Medium Term Financial Strategy 2018/19 Covering Report | 6 February 2018 |
| Report Author: | Angela Knight – Assistant Director – Resources 01799 510446 | Item for decision: No |

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 key items announced in the 2018/19 Finance Settlement are
 - Council tax referendum base has been increased to 3% for 2 years (Police can increase by maximum of £12)
 - No change to the New Homes Bonus (deadweight remains at 0.4% and there were no adjustments for housing approved on appeal). Last year's settlement changed NHB from a 6 year to a 4 year scheme (2017/18 transitional year at 5 years)
 - The Essex Bid to become a pilot for 100% Business Rates was unsuccessful, but it is expected that further pilots will be accepted in 2019/20.
 - Business Rates Retention (non-pilot authorities) will move to 75% retention from 2020/21

Recommendations

3. That Scrutiny reviews the MTFS and provides comment prior to their submission for approval to Cabinet on the 15 February and Council on 22 February 2018.

Financial Implications

4. Summary in the main body of this report and more detail in the Medium Term Financial Strategy.

Background Papers

5. Central Government 2018/19 Provisional Financial Settlement.

Impact

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

Forecasting the Council's Budget Requirement

- 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.
- 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 |

8. 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.
9. 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.

MTFS: Guiding principles

10. 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.
11. 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 unless there is no alternative.
12. 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.
13. 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.
14. 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.
15. Subject to the above, unavoidable and essential growth items will be funded by making 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.

16. 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.
17. 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.
18. The Council will ensure that all reserves are held for clearly defined purposes and the amounts kept under review as per the Reserves Strategy.
19. 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

20.

| 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.