*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. **14**

TITLE OF REPORT: MEDIUM TERM FINANCIAL STRATEGY 2014-2019

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY AND GOVERNANCE
PORTFOLIO HOLDER: COUNCILLOR T.W. HONE

1. SUMMARY

1.1 This report will review and update the existing Medium Term Financial Strategy (MTFS) to reflect new requirements, the impact of the current economic situation, initial effects of both Business Rates localisation and the Council Tax Reduction scheme; and the first modelling of the outcomes of the Spending Review announced on 26th June 2013 (SR13).

1.2 The updated MTFS provides the financial background to the Corporate Business Planning process for 2014-15 and notes that until the full assessment of SR 13 is complete and the modelling of the full impacts is confirmed, detailed financial planning is based on assumptions. The report concludes that it may be necessary to revisit the MTFS once there is greater clarity at the national level.

2. RECOMMENDATIONS

2.1 That Cabinet notes that until the full assessment of SR13 is complete and the modelling of the full impacts is confirmed, detailed financial planning is based on interim assumptions and an update will be provided when details are finalised.

2.2 That Cabinet recommend to Council that the updated Medium Term Financial Strategy outlined in Appendix 1 be adopted and communicated to officers as the medium term financial framework for the Corporate Business Planning process.

3. REASONS FOR RECOMMENDATIONS

3.1 SR13 was announced on 26th June and the fine details are now being assessed to confirm the full scale of the impacts on NHDC.

3.2 Adoption of a Financial Management Strategy and communication of the contents of the strategy will assist in the process of forward planning the use of Council resources and in budget setting for 2014/2015 to 2018/2019 culminating in the setting of the Council Tax precept for 2014/15 in February 2014.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 Delaying production of the MTFS until after the full impacts of SR13 were assessed was discounted due to the need to commence the work to identify efficiency options to close the gap of at least £500K in 2014-15.

5. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS

5.1 The approved Medium Term Financial Strategy will be communicated to members, staff and key stakeholders.

5.2 As part of the Corporate Business Planning process, Members will be consulted on the high level financial information in the Member workshops in September and on the detailed budget proposals in the Member workshops in November 2013.

6. FORWARD PLAN

6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 1st June 2013.

7. BACKGROUND

7.1 The Council has operated the current Corporate Business Planning process since 2001. As part of that process it has had a medium term (five year) financial management strategy, which is rolled forward one year each year.

7.2 Cabinet last considered and approved the Financial Management Strategy at its meeting on 31 July 2012.

7.3 The Financial Management strategy is the Council's key financial planning document. It considers and encompasses the financial implications of the priorities and actions in the Priorities document and is thus an integral part of the Corporate Business Planning process.

7.4 The Corporate Business Planning process allows for two sets of Member workshops, one at the strategic level in September and a second at the detail level in October/November.

7.5 The adoption of proposed priorities for 2014/15 onwards is considered in a separate agenda item to this Committee. That report shows the Priorities to be adopted are:

- **Promoting Sustainable Growth**
  (This will include employment, housing, leisure and the infrastructure to support the growth and recognises that the Council needs to encourage an environment in which businesses and people can flourish)

- **Working with local communities**
  (This will include the Localism agenda, Big Society, existing projects in our Town centres, rural strategy, working with partners and voluntary/community groups)

- **Living within our means**
  (This will include initiatives on new ways of working, delivering value for money, reviewing service subsidies and reducing overall spend to match available income without reliance on reserves)

These Priorities will be considered by Council at the meeting on 5 September 2013.

8. ISSUES

8.1 The MTFS reflects the fact that there are a number of significant queries at the present time in terms of the emerging financial impacts of Business Rates localisation and the Council Tax Reduction scheme and also that Universal Credit has yet to be rolled out. On top of this the full detail of SR13 will be assessed in the coming months and so it may therefore be necessary to update the MTFS later in the year as the financial situation becomes clearer. At this stage the MTFS seeks to identify the most likely scenario for further reductions in Government funding.

8.2 The Chancellor had already indicated that Totally Managed Expenditure for public services would continue to fall in 2015/15 and 2016/17 at the same rate as over SR 2010 and, in his Budget 2013, he further announced that the target budget reductions of £10bn for SR 2013 had now been increased to £11.5bn. Therefore it is very clear that the period of constrained Public Sector funding, and challenging budget balancing requirements, will continue for some years. Under these conditions the Council's alternative (i.e. non Government) sources of income are particularly important.

8.3 The 2013 Spending Review resulted in a further reduction in Government funding to Local Government for 2015/16 that will put significant pressures on revenue funding. Changes to the funding arrangements for Local Authorities mean that authorities are encouraged to replace the reduced government funding by growing their Business Rates income through encouraging the development of more businesses and growing the numbers of dwellings in the area to increase Council Tax levels and generate New Homes Bonus (NHB) payments. However, another SR13 announcement was that some NHB payments will be pooled in future and the current assessment is that this top slice will take 35% of NHB previously forecast as income to NHDC. The overall impacts on NHDC funding is currently being modelled, although it is already clear that, whatever assumptions are used the likely revenue funding "gap" over the four year period 2014/15 to 2017/18 will require significant further revenue savings.

8.4 The proposed MTFS builds on the existing strategy and updates the assumptions to reflect the general economic position. As can be seen from above, the outlook for District Councils' funding continues to point to a very difficult financial position in future years, with reducing resources and rising demand. The Council remains under pressure to adjust how it delivers services and review the things it does in order to deal with the on-going demands and this will continue for several years.

8.5 A number of changes to the MTFS have been implemented in recent years to further improve our financial management strategy, namely:

- Identify how much the Council spends against each strategic priority.
- Identify the areas that are lower or non priority for allocation of resources including review of statutory and discretionary services.
- Review the level of income generated by services that charge compared to the costs of provision.
- Reduce future reliance on interest rate income.
- In order to mitigate against the risk of non delivery of approved savings, all agreed savings are allocated to the relevant directorate budgets prior to distribution.
- Amending the Council Tax "rule" to reflect the possibility of negative RPI figures.

This MTFS adds the following measures:

- Option to capitalise staff costs in accordance with FRS 15.
- Further emphasis on invest to save opportunities, and proposals that can generate better rates of return than investments, with regard to capital expenditure.
- Developing more financially self-sustaining arrangements where possible for Council properties.

8.6 At this stage a figure of 0% Council Tax increase has been used in the estimates and it has been assumed that the Council Tax freeze grant would apply. A 1.9% increase in Council Tax (Government have confirmed the threshold for a referendum remains at 2%) would generate approximately £190k and would amount to an increase of 7 pence per week for a Band D property. This financial benefit would be compounded in future years, whereas the Council Tax freeze grant is only temporary and at a level equivalent to only a 1% increase in Council Tax.

8.7 Detailed assumptions are laid out at paragraph 8.8 of the MTFS with the resultant efficiency savings required to balance the budget shown at paragraph 8.9. As indicated in the MTFS, these figures will be subject to change as more information becomes available in the coming months.

8.8 There are a number of key risks in the assumptions after 2013/14 due to uncertainty around the overall impacts ongoing Government funding reductions. These are:

- Business Rates were localised from April 2013. Growth above Government forecasts would lead to additional income to the Council, as long as this did not achieve disproportionate growth (classed as more than 10% of NNDR Base), whereas collectable amounts could fall by over 7.5% (£170k) before the "safety net" applies.

- Implications of the Welfare Reform Bill and the introduction of the Universal Credit. A 10% cut in funding was passed on to Local Authorities. Council tax benefits for the District currently total approximately £8.2million, so this reduction of 10% meant approximately £820k (shared by the main precepting bodies in proportion to their share of the total bill) had to be found from a review of the benefit scheme so there was no impact on funding for other services. The scheme was implemented from 1st April 2013 and initial indications are for no significant adverse impacts on collection rates, however this will be monitored closely.

- The 2013 Triennial Pension Fund Valuation will set employer contribution rates for three years effective from 1 April 2014 to 31 March 2017. Expectations are that contributions towards the deficit reduction element will need to increase by the equivalent of at least another 1% of pay per annum, but for some councils up to 2% of pay per annum will be required, especially as payrolls may have reduced. The detailed work to calculate contribution amounts begins in July 2013 and results will be available for all employers in November/December 2013. The interim valuation exercise suggests that the deficit on the NHDC element of the Superannuation fund will require an annual increase of £200k above the existing contribution level over the next three years in order to meet the liability in the pension fund which would need to be found from additional revenue savings, and so the Council may wish to apply to make a capital contribution to the fund which would reduce the contribution rate in the future.

- Modelling is underway to identify the full impacts of SR13 and the picture will be clearer by the time of the first Member workshops, although it should be noted that the net impact on the Council's funding from central government could be different to the assumptions in the MTFS.

9. LEGAL IMPLICATIONS

9.1 Cabinet has the power, within its terms of reference, to make recommendations to full Council on the formulation of those policies within the Council's terms of reference. The adoption of the MTFS falls within the Council's terms of reference as it is a key policy document.

9.2 The purpose of the report is to outline a medium term financial management strategy for 2014 to 2019. The attached MTFS will assist the Council in making sustainable decisions by providing a framework within those decisions may be taken. Members are also reminded of the duty to set a balanced budget.

9.3 Individual items on the MTFS may require the Council to make decisions that will have specific legal implications. Any such legal implications will be dealt with in the report that relates to that decision.

10. FINANCIAL IMPLICATIONS

10.1 Given the pressures identified in this report, in order to balance the budget and achieve a Council Tax figure in accordance with the agreed strategy, it will be necessary to find savings of between £2.6million and £3.6million over the next 5 years. In planning for the future, we seek an acceptable balance between reducing expenditure, increasing income from fees and charges, using balances and increasing the Council tax. The MTFS suggests identifying efficiencies of between £500k and £600k in 2014/15 to balance the budget for that year and spread the achievement of the underlying efficiencies needed in the base budget over the 5 years. The final decision on the District Council Tax level for 2014/2015 will be made at Council on 13 February 2014.

10.2 Government funding cuts and consequent budgetary constraints are specifically concerned with Revenue expenditure. It is therefore important to note that, although the Council is able to utilise revenue funding for capital purposes if it so chooses, capital funding cannot be used for revenue costs unless a special capitalisation scheme is announced by Government. Such schemes, when announced, are subject to strict criteria.

10.3 Revenue expenditure funds the running costs of the Council: provision of day to day services such as refuse collection, leisure centres, grass cutting, staff salaries and so on. Some examples of revenue costs are salaries, stationery, energy charges, telephone bills, rents and business rates. On the other hand Capital expenditure is incurred on items that have a useful life of more than one year and is therefore regarded as investment. Some examples are IT servers, building improvements and major equipment. In some instances initial capital expenditure can reduce ongoing revenue costs, and therefore reduce pressure on revenue budgets (invest to save), and these opportunities are given serious consideration wherever possible.

11. RISK IMPLICATIONS

11.1 The government has argued that when other measures are taken into account, such as powers to raise additional local income and other central government funding, local government spending reduces by only 2.3%. However all of these measures are contingent upon factors largely outside of local government control. The ability to increase revenue from localised business rates is dependent on a growing economy, and individual central government funding streams are neither guaranteed in the long term, nor distributed evenly across the country. Some, such as NHB are also dependent on developments being completed and the income level will be reduced due to pooling.

11.2 Additionally, the announcement of another temporary council tax freeze grant for a further two years will only add to authorities' medium to long term financial pressures and permanently reduce their resource base.

11.3 There are financial and reputational risks involved in arriving at a balanced budget against the uncertainty surrounding levels of government funding. We seek to mitigate the risks by scenario planning, use of the established corporate business planning process and early involvement of members and key stakeholders.

12. EQUALITIES IMPLICATIONS

12.1 The Equality Act 2010 came into force on the 1st October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5th April 2011. There is a General duty that public bodies must meet, underpinned by more specific duties which are designed to help meet them.

12.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.3 Individual budget proposals will consider the impacts on all sectors of the community, ensuring that the local consequences of decisions taken are recognised and understood, to recognise not only relevant equality law, but also the principles of the Localism Act.

13. SOCIAL VALUE IMPLICATIONS

13.1 As the recommendations made in this report do not constitute a public service contract, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section above.

14. HUMAN RESOURCE IMPLICATIONS

14.1 Human resource implications that may arise from any proposed efficiencies and investment proposals will be outlined in the 'anticipated impact' column of the detailed proposal forms that are submitted as part of the corporate business planning process. In line with the Council's reorganisation policy, if applicable, consultation with any staff directly affected by the efficiency proposals would be conducted.

15. APPENDICES

Appendix A - Medium Term Financial Strategy 2014-2019 and General Fund Estimates 2014-2019.

16. CONTACT OFFICERS

Report Writer – Andy Cavanagh, Head of Finance, Performance & Asset Management, Tel 474243, email Andrew.cavanagh@north-herts.gov.uk

Contributors –

Norma Atlay, Strategic Director of Finance, Policy & Governance, Tel 474297; email norma.atlay@north-herts.gov.uk

Tim Neill, Accountancy Manager, Tel 474461, email tim.neill@north-herts.gov.uk

Fiona Timms, Performance & Risk Manager, Tel 474251, email fiona.timms@north-herts.gov.uk

Jas Lyall, Senior Lawyer, Tel 474370, email Jas.Lyall@north-herts.gov.uk

Kerry Shorrocks, Head of Human Resources, Tel: 474224 Email: kerry.shorrocks@north-herts.gov.uk

Liz Green, Head of Policy and Community Services, Tel 474230 Email: liz.green@north-herts.gov.uk

17. BACKGROUND PAPERS

17.1 Priorities for the District 2013/14
Budget Estimates 2013/2014
Statement of Accounts 2012/13
Capital Programme – 2013/14 onwards