APPENDIX A

NORTH HERTFORDSHIRE DISTRICT COUNCIL

MEDIUM TERM Financial Strategy

2014-2019

CABINET (30.7.13)

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MEDIUM TERM FINANCIAL MANAGEMENT STRATEGY 2014-2019

1.0 Introduction

1.1 The Medium Term Financial Strategy (MTFS) is an integral part of the Council's Corporate Business Planning process. It complements the Council's Priorities for the District and sets out a clear framework for our financial decision making.

1.2 The Priorities for the District sets out the Council's priorities and the MTFS sets out how the financial management process will contribute to delivering those priorities

1.3 Subject to Cabinet's decision at its meeting on 30th July 2013, the priorities for 2014 onwards will be:-

- **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)

1.4 The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document. The Council operates a system of priority led budgeting and the Corporate Business Planning process describes an annual cycle that begins with the identification of our strategic priorities and the short and medium term actions we will take to achieve them. Having identified our strategic priorities and actions through the Priorities for the District, the MTFS then considers the financial implications of the priorities and other external pressures and ensures we have a clear policy framework to enable us to allocate funds in accordance with our priorities as we go through the budget setting and service planning stages of the process.

1.5 The MTFS includes a forward look over the next five years to anticipate the spending pressures we will face and the level of savings that will need to be made to keep Council Tax increases to minimum possible levels. It provides guidance for officers in building the short, medium and longer term picture of financial requirements facing the Authority and enables financial planning to be carried out in advance to help the Authority meet future demands. Planning now to meet known changes in the future provides greater opportunity to phase in the impact of the changes. Planning for the future will mean that the Authority can ensure sufficient funds are held in balances to be in a position to react swiftly to changing demands and emergencies as priorities or policy demands alter. By anticipating the pressures at an early stage, we can plan to meet challenges by ensuring that limited financial resources are targeted to the Council's and residents' highest priorities. The intention that priorities are set for at least a five year period, with a review at the end of five years (or sooner should external circumstances dictate), will assist the planning for the future and the ability to shift resources to those priorities over a reasonable length of time.

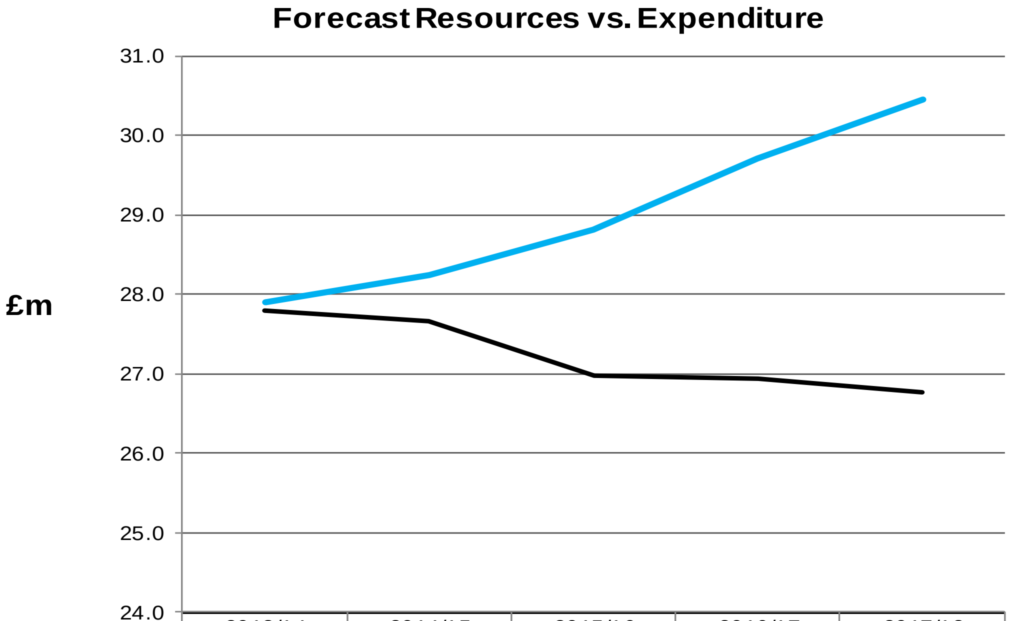
1.6 In the Budget 2013, the Chancellor stated that Spending Review 13 (SR13) would be announced on 26 June 2013 and would cover 2015/16 only. The themes driving SR13 are growth, efficiency and public service reform. He had already indicated that Totally Managed Expenditure for public services would continue to fall in 2015/16 and 2016/17 at the same rate as over the SR 2010 period and, in his Budget 2013, the Chancellor announced that the target budget reductions of £10bn for SR13 had been increased to £11.5bn. Local Government is facing a further cut in Government funding for 2014/15 and 2015/16. CIPFA has raised concerns about the impact of this further cut to local government funding in 2015-16 that comes on top of a 35% reduction announced in 2010 covering 2011-2015. CIPFA believes it will be particularly challenging for local government to absorb yet another large reduction in funding.

1.7 The Chancellor's SR13 statement included reference to a 10% cut to local government funding. Table 1 (page 10) of the Spending Round 2013 report shows the high level figures that support this figure. The figures in the table suggest only an 8.2% cut for local government. However, this may be due to the exclusion of one-off and time-limited expenditure within the 2014/15 baseline figure (the percentage changes for other departments also do not reconcile with the expenditure levels within the tables).

1.8 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 now 50% localised business rates (before application of the levy) 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 New Homes Bonus are also dependent on developments being completed, and the impacts on individual councils from the NHB pooling proposal just announced are not yet quantified. In addition, the announcement of a 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. This Local Government funding cut in 2015/16 includes what the Office for Budget Responsibility has forecast for localised business rates that local authorities can retain following changes to the local government finance system; although it does not include Council Tax freeze grant funding.

1.9 The Office of Budget Responsibility's growth forecast for 2013 has now halved to 0.6% and is less than one-third of the projection made in Budget 2012. So, once again the MTFS is being updated during a time of considerable financial uncertainty. The wider economic position remains gloomy and further changes to public sector funding arrangements result in ongoing significant financial challenges. Much of the ring fencing of grants has been removed, but the overall "pot" of available funding has been reduced. The localisation of Council tax benefit from 2013/14 came with a 10% reduction in available funding. The new business rates retention scheme has also been implemented from 2013/14. Alongside these major developments, the precise local implications from other aspects of the Localism Act and the Welfare Reform Bill have yet to become fully clear.

1.10 LG Futures, a public sector finance advisory service, have produced a funding model for North Herts based on data submitted in statistical returns, an analysis of the future forecasts for government receipts and expenditure published by the Office of Budget Responsibility with the March 2013 Budget, and an analysis of the structure of the arrangements for local retention of business rates and localised council tax support that operates from April 2013. Although the model can only represent a rough guide to local authorities' future funding, it is relevant as the analysis reveals the continued expectation that a budget gap between net expenditure and income to fund that expenditure will remain over the period to 2019/20, despite ongoing savings measures.



	2013/14	2014/15	2015/16	2016/17	2017/18
Resources	27.8	27.7	27.0	26.9	26.8
Expenditure	27.9	28.3	28.8	29.7	30.4

1.11 Further information on any aspect of the Council's finances can be obtained from the Council's website at the following address:

http://www.north-herts.gov.uk/index/council_and_democracy/budgets_and_spending.htm

2.0 Financial Management Principles

2.1 The Council has a duty to the public for responsible use of their money and the Council has a system of internal control and governance arrangements to ensure that all public money is soundly managed. Our Financial Management and Governance arrangements are subject to annual external audit and have consistently been found to be sound.

2.2 The following principles underpin the Council's financial management arrangements;

1) The Council will conduct its financial management with integrity, probity and in accordance with the standards and expectations of a publicly funded body

2) The Council will ensure that its published financial information is accurate, transparent, reliable and understandable

3) The Council will ensure that budgets are aligned to the Priorities for the District and based on prudent and realistic estimates

4) The Council recognises that it will not be able to continue to resource current levels of service given the ongoing level and pace of funding cuts and will ensure that budget savings are identified to minimise the impact on frontline core services.

5) The Council will maintain sound financial controls as set out in Financial Regulations and Contract Procurement rules and at all times will have regard to advice from the section 151 officer (Chief Financial Officer) and Monitoring Officer.

6) The Council will base its decision making upon complete, reliable and timely financial information and an evaluation of the financial and risk implications

7) The Council will monitor the revenue and capital budgets on a quarterly basis, reporting to Cabinet, and more frequently if monitoring raises issues of concern. It will hold its managers accountable for remaining within their overall budgets and will empower them to use the virement powers within the Financial Regulations to make the business decisions necessary to do so.

8) The Council will work with partners in the public, private and voluntary sectors to maximise the resources available to deliver our priorities through a variety of means, either directly or indirectly.

9) The Council will use one-off grants for time-limited or invest to save projects which do not add to the base in the longer term. Analysis of any ongoing revenue cost which may be incurred will therefore be undertaken prior to any commitment to use such grant funding.

10) Before committing to additional expenditure, the Council will ensure that sufficient additional funding and/or efficiency savings are identified to meet the additional costs.

11) The Council will maximise its commercial income where possible to ensure that fee charging services are provided at a nil cost subsidy to the taxpayer where appropriate, or return a surplus, and will increase its fees and charges annually by the rate of inflation (or to reflect the impact of VAT increases or relevant comparative data obtained via benchmarking) except where legal requirements, contractual obligations, market forces or other special circumstances render this inappropriate. The Council will also seek to optimise income from the use of its assets, offering concessions (as appropriate and affordable) to encourage use by all members of our community in pursuit of our strategic priorities. This can include exploration of trading opportunities as and when they are identified.

12) The Council will allocate resources to support organisational transformation that will improve services to the public and represent value for money in line with our priorities. We will achieve value for money by:
    - Ensuring that all of our limited resources are allocated to our priorities through a vigorous corporate business planning process
    - Achieving service and budgetary targets through tight budgetary control and good project management
    - Seeking opportunities to utilise capital funding for invest to save schemes and proposals that generate higher rates of return than investments.
    - Maintaining the policy of competitive tendering and adopting best procurement practices
    - Minimising waste and achieving efficiency savings year on year
    - Measuring service quality against external objective quality standards such as:-
      - External accreditations such as Charter Mark, Investors in People etc
      - appropriate locally determined performance indicators
    - Working with the Local Strategic Partnership and other partners
    - Listening to the views of residents, service users, businesses and staff and responding to service requirements
    - Promoting equality of opportunity

- Exploring new ways of working, such as through shared services and other collaborative opportunities, with other local authorities/partners

13) The Council will maintain balances and reserves to enable it to respond effectively to unexpected events and opportunities and will ensure the level of balances and reserves is sufficient to meet all known future liabilities. Due to the increased volatility from the change to funding from the localisation of Business rates, and the impact of New Homes Bonus pooling proposals, we will maintain the minimum General Fund balance at 5% of net expenditure for unknown risks, plus a prudent allowance for known risks, when annual budgets are set, and will have a phased approach to the use of balances to ensure that the potential for erratic movements in Council Tax requirements is smoothed as far as possible.

14) The Council will continue to explore alternative means of service delivery including partnering, enabling, outsourcing, shared services and will aim to make best use of IT and changes to our work processes to ensure cost effective, economic and efficient services are provided at the level the customer requires. Where a business case identifies future savings, these will be built into the base budgets to encourage managers to realise the anticipated efficiency savings.

15) The Council will seek efficiency savings to compensate for any increase in Directorate expenditure subject to consideration of the likely impact based around four questions and prioritisation of the identified savings against the scoring matrix.
    - Is the saving fundamental to delivery of the Council's priorities?
    - Will the saving impact on delivery of Council's priorities and how?
    - What are the risks involved in making the saving?
    - Will the saving carry on in future years?

16) The Council has established a clear link between the budget strategy and the risk register to ensure that necessary funds are available to progress work to mitigate the Top Risks. The Top Risks are regularly reported to Cabinet and any impact on budgets is taken into account.

17) The Council recognises the risks inherent in the budget strategy and in particular the impact of a change in interest rates on the investment income and will therefore limit the reliance on investment income.

18) The Council will seek to maintain a Strategic Priorities Fund of up to £100k (depending on affordability) to assist in facilitating the shift in resources to meet key priorities. In-year underspends up to the £100k limit may be carried forward to provide the necessary finances. The fund, allocated by the Senior Management Team, is utilised to encourage financing of innovations/invest to save bids, to enable the outputs from service reviews and continuous performance improvement strategies to be funded and to facilitate achievement of strategic priority projects.

19) All investment priority bids for both Revenue and Capital are subject to robust scrutiny from Challenge Board and Members, where they are subject to four basic questions and then scored in accordance with the scoring matrix below;
    - Is the expenditure fundamental to delivery of the Council's priorities?
    - Is there an absolute priority that the expenditure is incurred in the next 12 months?
    - What are the risks involved in not spending the money?
    - Will the growth result in quantifiable savings in future years?

	Revenue & Capital	Points Score Range
1	Contractual Obligation	0 but noted as obligation*
2	Statutory/Discretionary/Core or Non-Core	0-10
3	Priorities	5 per main action

4	Continuous Improvement	0-5
5	Social Inclusion	1-3
6	Income generation	4-7
7	District Wide Survey	1-6
8	Health & Safety	0-5
9	Invest to Save	0-10

*No score is given on the basis that a contractual commitment should not be seen as a barrier to change. It may be possible to negotiate a change in contract terms, albeit at a price, and clauses to reflect this possibility should be included in standard contract terms.

20) The Council will set the level of Council Tax increase year on year either at a rate no higher than RPI plus two percentage points or 0% plus two percentage points where RPI is a negative figure, as circumstances dictate and bearing in mind any Council tax capping criteria imposed by Government.

21) The Council identifies the functions which are lower or non priority for resource allocation, based on a scoring matrix, and seeks to move resources away from the lower priority functions.

22) The Council will continue to use the Challenge Board process to undertake the detailed exploration of budgets to identify potential efficiencies. Challenge Board will continue the work on value for money and on-going review of services which are statutory and discretionary with a view to informing decisions on services where we may wish to spend less and provide less.

23) The Council will keep under review the potential for making further lump sum revenue contributions from balances, and explore options to capitalise such lump sum payments, to offset some of the deficit on the superannuation fund, thus improving the revenue position in future years, subject to consideration of the advantages and disadvantages of such a payment following advice from the fund actuaries.

24) The Council will operate its capital programme, borrowing and investments in accordance with the CIPFA Prudential Code. The revenue impact of the Capital Programme will be included in the revenue budget. This includes the potential reduction in income from cash investments that could result from capital investment. For capital expenditure on Council Assets (as detailed in the Asset Register and included in the Council's Balance Sheet) the minimum level for capital funding will remain at £20,000 for property and construction and £10,000 for vehicles, plant and equipment for 2012/13. Where the Council is allowed by statute to treat expenditure on third party assets as capital and it can be demonstrated to the Strategic Director of Finance, Policy & Governance that the expenditure meets the requirements of the Prudential Code, a minimum level will not be applied.

25) The Council will ensure the level of planned capital spending in any one-year matches the capacity of the organisation to deliver the schemes to ensure that the impact on the revenue budget of loss of cash-flow investment income is minimised. Through the work of the Asset Management Group, we investigate opportunities for generating and applying funding from private sector sources, alternative forms of grant aid, asset sales (bearing in mind the revenue impact of loss of rental income in some instances) and other sources as they arise (current potential options include the New Homes Bonus and Tax Increment Financing). Income generated from asset sales in one part of the district may be applied to projects in any part of the district. Consideration will be given to using some of the interest receipts from investment of capital receipts to set up a Revenue Contribution to Capital fund. Should any increased income be received as a result of an improvement in interest rates in the year, we will consider making a contribution to such a fund.

26) The Council will utilise set aside capital receipts in a sustainable and prudent manner to assist in funding the capital programme. Consideration will also be given to opportunities to utilise capital funding for invest to save schemes and proposals where the project can be demonstrated to generate income in excess of the lost interest amount on the capital sum required. The lost interest will be taken to be the five year interest rate. The allowance for lost interest part of the calculation is

required to demonstrate that the proposal generates savings in excess of lost interest, however the total revenue saving is accounted for when assessing achievement of annual savings. Note that, both the proposal for use of capital receipts and the total revenue saving will also need to take full account of any potential revenue impact (cost) which may be incurred by the new capital scheme, including where that revenue cost will not necessarily be borne by the instigating service. For 2014/15 onwards a minimum retained capital threshold is set at £20million, being the approximate rolling average five-year capital programme value. This policy will be reviewed at least annually to consider the impact of changing interest rates and also at the point when the minimum capital threshold is approaching.

27) The Council will use any funds available from the Community Benefit Agreement in partnership with North Hertfordshire Homes (established as part of the Housing Stock Transfer Agreement) in accordance with the agreed categories i.e.

- Provision of additional social housing
- Community benefit such as enhancement of community centres; provision and enhancement of recreation areas such as children's play areas; provision and enhancement of landscaped areas(e.g. to deter anti-social behaviour); road safety and congestion initiatives.
- Any projects proposed by the Council which are within North Herts Homes' objectives and powers.

The Council will apply the same principles to any potential housing receipts generated by North Herts Homes with respect to clawback and overage payments (which were also principles established in the Housing Stock Transfer Agreement). Alternatively, if no agreed scheme is forthcoming then clawback/overage may be due to the Council.

28) The MTFS will cover the five year period April 2014 to March 2019 and will be rolled forward one year as part of the annual strategy review every Summer.

3.0 Corporate Business Planning

3.1 The MTFS complements the Priorities for the District as a means of ensuring that the Council's finances are aligned with its priorities. We identify how much the Council spends against each priority and monitor the impact of our financial resource allocation to ensure we achieve value for money through the achievement of the anticipated outcomes set in the Priorities for the District document. The projects identified for completion in the Priorities for the District have budget allocation, are approved pending external funding confirmation, or are a combination of the two.

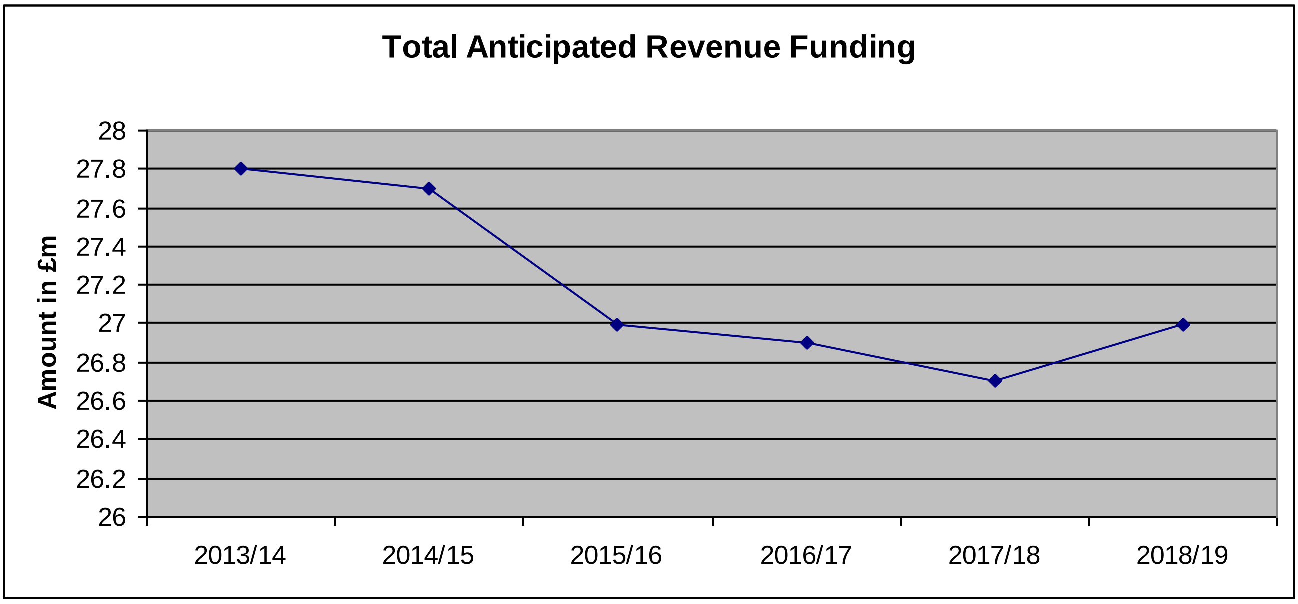
3.2 The Council operates a system of priority–led budgeting. This ensures that resources are directed and/or redirected to the achievement of the Council's priorities and ultimate delivery of the Priorities for the District .

3.3 The Corporate Business Planning process facilitates a critical review of existing expenditure through the work of the Challenge Board of officers led by the Chief Executive. This group reviews the base position, challenges existing budget allocations and creates the ability to reallocate money to strategic priorities. Over recent years, we have been successful in identifying efficiencies that have enabled funds to be reallocated to help meet Council priorities and our value for money work continues this focus on efficiency.

3.4 As shown in the table below, since 2005/06 this challenge process has generated some £10 million of funds for redirection or to balance the budget through a mixture of increased income and expenditure efficiency savings.

Year	Funds available for redirection £(m)
2005/06	1.5
2006/07	1.3
2007/08	0.9
2008/09	0.6
2009/10	1.2
2010/11	1.3
2011/12	1.9
2012/13	0.6
2013/14	0.7
Total	**10.0**

3.5 The graph below demonstrates the anticipated changes in total funding over the period 2013/14 to 2018/19 based on current estimates and interpretation of the SR13 announcements. This shows a reducing figure until 2017/18. The slight upturn in 2018/19 is because current estimations are that RSG will continue to fall at significant levels until 2017/18 and then will remain static in 2018/19. However, we also anticipate the District Precept to grow by 0.5% because of the growth in taxbase, and for fees and charges to increase inline with inflation. The estimates assume no increase in the rate of council tax over 2014/15 to 2018/19. The reduction reflects the announced reduction in Government funding and the estimated top slice of the New Homes Bonus. There will be inevitable growth in expenditure through inflation that will need to be matched through efficiency initiatives in order to balance the budget over the medium term and maintain a prudent level of resources.

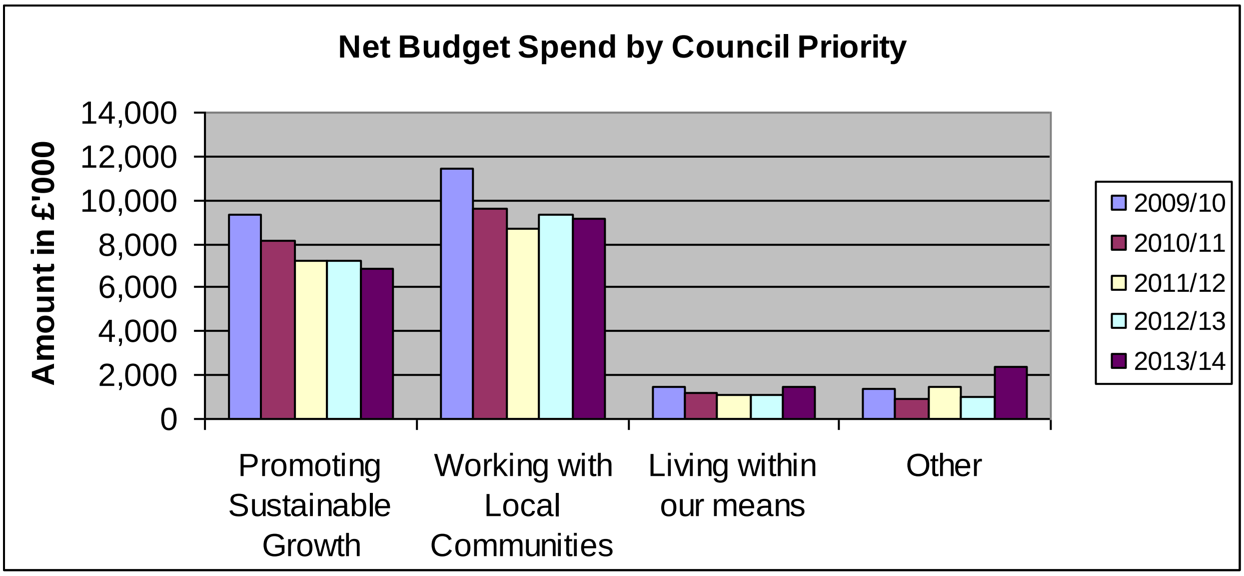


3.6 The Council has formalised its approach to Value for Money, defining this as the relationship between Price, Performance and Perception. The Council's Corporate Business Strategy has provided a methodology by which the service, performance and customer perception can be more closely linked to cost, enabling us to compare with statistically similar "nearest neighbour" and/or other appropriate comparator authorities and measure ourselves more critically. The Challenge Board has identified a programme to review service areas where we appear at first sight to be high cost and drill down into the detailed reasons for this so that we can then make informed choices about any action that may be required. An equivalent approach may be taken for income generated by fees & charges. Challenge Board has also categorised functions as Statutory or

Discretionary and this, combined with information on cost and performance is being used to inform decisions on potential areas for efficiency.

3.7 The alignment of the 2009/10 to 2013/14 budget estimates to the Council's proposed three priorities of Living with our means, Promoting Sustainable Growth and Working with local communities is demonstrated in Chart 1. The allocation includes capital charges and reflects an approximation of Officer time to various aspects of their work and hence the Council's priorities.

Chart 1: Distribution of budget to Council Priorities



3.8 All projects undertaken by officers across the authority should link directly to one of the Council's priorities or contribute to improving the value for money of day to day activities, and the scoring matrix in paragraph 2.2 (18) is used to rank any bids for additional resources. If a link to the priorities cannot be demonstrated, the project should not be supported with financial resources and should not proceed. Examples of the types of detailed project work undertaken and supported by redirected funds include work on the Local Development Framework, Traffic Regulation Orders, improvements to play areas, agreeing proposals for Town Centres, further development of waste recycling, working with our partners on the Local Strategic Partnership to deliver the Sustainable Community Strategy and improving housing options to reduce homelessness.

3.9 Existing functions of the Council should also be considered in terms of how they contribute to the priorities of the Council. This will assist in de-prioritisation of functions. This represents difficult, but necessary, decisions to both secure a balanced position in the short term and address larger scale financial challenges in the medium term.

Roles and Responsibilities

3. 10 The role of Members in the Corporate Business Planning process is to

- set vision and strategic direction
- agree the Council's priorities
- agree the specific projects to achieve the priorities
- agree the rolling MTFS including decisions on the time-frame to be covered, external influences to be considered and included, strategy for use of balances, assumptions regarding government support and the implications of doing so, income policy, capital strategy and setting indicative council tax levels for future years
- scrutinise proposals for funding prioritisation and de-prioritisation as set out by managers

- decide between options presented
- decide on options for increasing charges through the income policy
- take a corporate overview of the budget position once decisions on individual prioritisation have been taken.
- set the level of Council Tax each year
- scrutinise and monitor the budget throughout the year

3.11 The role of all officers is to

- put forward suggestions for actions to deliver the priorities
- manage services to deliver the actions in the plan within budget allocations
- report on value for money and continuous improvement
- monitor the budget throughout the year and ensure spending is in line with policy requirements

3.12 Pension Scheme Impacts:

Local Government Pension Scheme

3.12.1 When complete, 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 will need to increase by 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 rates will begin in July 2013 and results will be available for all employers in November/December 2013.

3.12.2 The interim valuation exercise suggests that the Superannuation contribution increase for NHDC will require an annual increase of £200k over the next three years in order to meet the liability in the pension fund. Any further changes to the Local Government Pension Scheme that might be adopted following the current government consultation (LGPS 2014 is expected to be implemented in April 2014) will need to be reflected in the MTFS assumptions. This will include increased percentage contribution levels for those earning over £43k, although overall contributions to the scheme in total are projected to remain the same. The Council could apply to make a capital contribution to the fund, or a revenue lump sum from balances, that would reduce the contribution rate in the future.

3.12.3 Employee Auto enrolment into the LGPS could increase costs if employees do not subsequently opt out again within the 3 months allowed for opt out. However, as NHDC is not experiencing a significant turn-over of new employees, the funding position in this respect is stable at present, although is being monitored.

State Earnings Related Pension Scheme

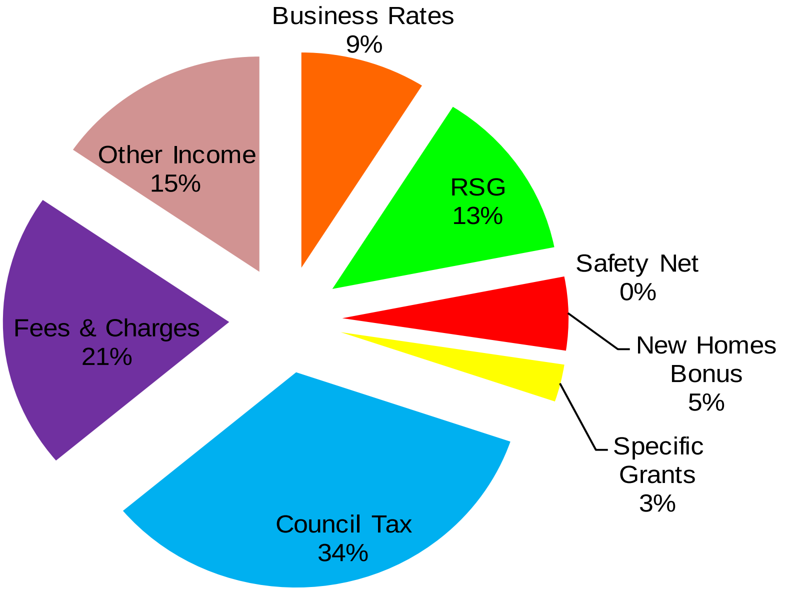
3.12.4 The Government has announced that it is bringing forward the introduction of the new Single Tier Pension, from April 2017 to April 2016. The estimated cost to all public sector employers is £3.3bn per annum. The Chancellor stated that “public sector employers will have to absorb the burden, as is always the case with tax changes” before adding that ”any spending review in the next Parliament will, of course, take the £3.3 billion cost into account”. It remains to be seen how transparently these costs are acknowledged, or whether they would simply be absorbed into overall RSG changes and therefore be unidentifiable.

4.0 North Hertfordshire Revenue Budget - the current picture

4.1 The net expenditure on the General Fund for 2012/13 was £15.066million. This was a net decrease of £677k (or 4.5%) on the working budget of £15.742million. This includes the request of the carry forward of £489k of budgets from 2012/13 to 2013/14 for projects which have not completed by the end of the financial year. Following approval the revised net expenditure for 2013/14 is £17.081million. Carry forward requests into the last financial year amounted to £418k. Regular budget monitoring and reporting on progress against carry forward budgets, budgets where savings are to be made and those where investment has been permitted, ensures that Members and officers are actively managing the financial position. Through the monitoring process, we are able to use the lessons learned to update the rolling financial strategy and this is done in the summer each year.

4.2 The following chart indicates the main sources of income to the Authority (excluding housing and council tax benefit subsidy).

2013/14 Total Funding



Source: LGFutures Medium Term Revenue Resource Forecast tool
* Other Income includes investment interest, rental income, benefit overpayments, recycling credits and sales, waste minimisation grant, and contributions from HCC and NH for agency and SLA agreements.

4.3 The Authority can decide how much income it will raise from discretionary fees and charges and through the precept on the Council Taxpayer (subject to any capping restrictions). The National Non Domestic Rate level is set nationally and this will continue to be the case under the new Business Rates scheme. Government grant is based on a formula and from 2011/12 each local authority was placed into one of four floor levels, based on a ranking determined by grant dependency, i.e. the proportion of the 2010/11 budget requirement that was funded from 2010/11 formula grant, with a further assessment to ensure there were an equal number of authorities in each band. As in previous years, the floor damping system is self financing within each group of authorities so that authorities in one group do not cross-subsidise the floor for authorities in another group. Band 1 authorities are deemed “most dependent” on formula grant and band 4 authorities are “least dependent”. Band 4 authorities, including NHDC, therefore receive the highest percentage cuts in grant.

4.4 Over the last six years, the proportion of the Council’s expenditure met by Government grant has fallen significantly and this results in a change to the “gearing” ratio between central and local funding. The first table below demonstrates the effect of gearing and the second table demonstrates the actual trend in the funding of the Council’s expenditure from 2007/08 to 2012/13:

	Year One	Year Two	% increase
	£	£	
Expenditure	100,000	120,000	20%
Government Grant	60,000	60,000	0
Council Tax	40,000	60,000	50%
Council tax as % of expenditure	40%	50%	10%

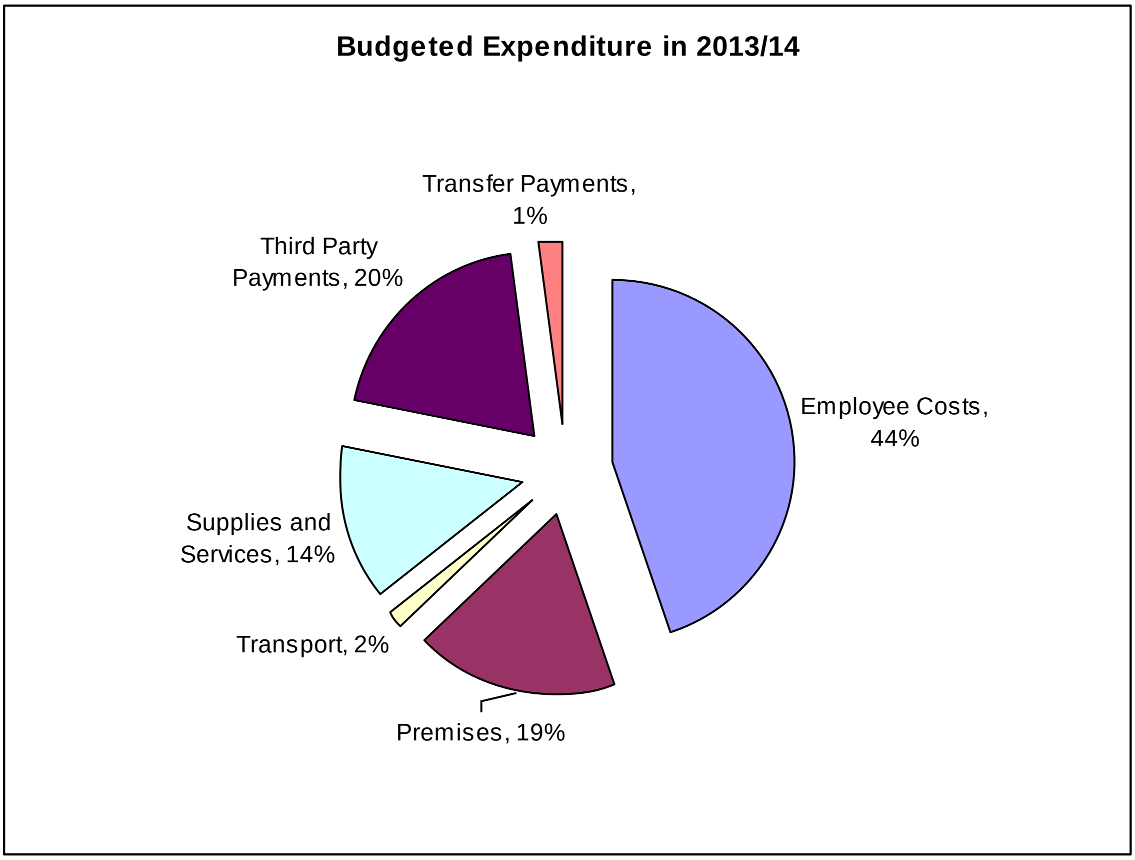
	2007/08 £'000	**2008/09 £'000**	**2009/10 £'000**	**2010/11 £'000**	**2011/12 £'000**	**2012/13 £'000**
Net expenditure	16.620	17.970	19.134	18.116	15.331	15.566
Funded by:						
Government funding	7.559	7.742	7.886	8.070	6.197	5.607
Council Tax	8.639	9.111	9.579	9.780	9.885	9.944
Use of Reserves	0.421	1.117	1.668	0.267	(0.751)	0.015
Council Tax as a % of expenditure	52%	51%	50%	54%	64%	64%
Government funding as a % of expenditure	45%	43%	41%	45%	40%	36%
Use of Reserves as a % of expenditure	3%	6%	9%	1%	-4%	0%

The basis on which funding is now distributed has changed and therefore from 2013/14 the presentation shown in the table below is appropriate. This illustrates the new Start Up Funding Assessment (SUFA) categories and also the gross, instead of net, position.

	2013/14 £'000s	2014/15 £'000s	2015/16 £'000s	2016/17 £'000s	2017/18 £'000s	2018/19 £'000s
Revenue Support Grant (RSG)	3.600	2.743	2.174	1.603	1.122	1.122
Retained Business Rates (RBR)	2.487	2.563	2.632	2.714	2.806	2.806
New Homes Bonus (NHB)	1.534	1.984	1.581	2.047	1.995	1.995
District Precept (Council Tax)	9.356	9.402	9.449	9.497	9.544	9.592
Fees and Charges	5.762	5.939	6.099	6.288	6.502	6.723
Other Grants and Income	5.064	5.023	5.031	4.793	4.793	4.793
Total Funding	**27.803**	**27.654**	**26.967**	**26.942**	**26.762**	**27.031**
Council Tax as a % of Total Funding	34%	34%	35%	35%	36%	35%
RSG as a % of Total Funding	13%	10%	8%	6%	4%	4%
RBR as a % of Total Funding	9%	9%	10%	10%	10%	10%
NHB as a % of Total Funding	6%	7%	6%	8%	7%	7%
Fees and Charges as a % of Total Funding	21%	21%	23%	23%	24%	25%
Other Income as a % of Total Funding	18%	18%	19%	18%	18%	18%

4.5 The following chart shows the main areas of budgeted expenditure in 2013/14 excluding housing and council tax benefit payments.

Chart 3 –Main areas of expenditure



Local Government Finance Settlement

4.6 The Local Government financial settlement is now based around what is termed a "Start up Funding Assessment". This incorporates both the Revenue Support Grant from government and the amount of locally collected business rates that the Authority is allowed to keep (for NHDC this is roughly 6% of the total business rates collected, after the levy is applied). The Revenue Support Grant is expected to be £2.743million for 2014/15 and the retained business rates are expected to be £2.563million. Together this gives a "start up funding assessment" of £5.306million. This is roughly 13% lower than the amount expected in 2013/14 of £6.087million.

4.7 The Council has received and will continue to receive several other specific grants for some areas of our expenditure, e.g. benefits administration. Often the grants are time-limited and in such cases, Members have taken the decision that the funding should not be used to support ongoing expenditure but rather should be used for one-off or invest to save projects which will improve performance without adding to on-going costs. This is a sound strategy which is followed for any performance related grant funding.

4.8 In 2012/13 the Council received some £48.629 million as earmarked revenue grant funding. Often the announcements of this type of funding are made after the Council has set its annual budget making it difficult for Councils to plan ahead.

ANALYSIS OF GOVERNMENT GRANTS:

	2011/12 £'000	2012/13 £'000
Benefits Administration and Fraud Initiative Grants	968	888
Housing and Council Tax Benefit Subsidy	43,826	45,848
Waste minimisation – Herts County Council contribution	414	395
Waste Service Transport Subsidy	44	33
National Non-Domestic Rates Administration Grant	183	181
Portas Grant *	0	10
Homelessness Prevention Grant	148	88
New Homes Bonus	552	1,042
Community Safety Grants	58	28
Climate Change Grant	29	0
Council Tax Reduction Scheme – New Burdens Grant	0	89
New Burden NNDR Deferrals - DWP	0	3
Play Project – HCC	3	2
Community Right to Bid	0	13
Gt Ashby Gardens	0	13
Ivel Springs - Biffa	36	-2
DCLG – Land Charges	34	0
Food Standards Agency Grant	4	0
Pix Brook Project	20	-2
Renaissance East of England	1	0
Total	**46,320**	**48,629**

**the authority is required to act as administrator only of this grant on behalf of the Letchworth Town Centre Partnership, who are responsible for identifying areas of expenditure from the grant to best support local businesses. It is also a one-off grant, not to be repeated in future years.*

4.9 The authority has developed its exit strategy approach for time-limited external funding so that services to the public do not suffer at the end of the funding period. Grant funding lifecycles will be monitored throughout the year and as grants come to an end they will be reported in the annual budget report. We will not rely on time-limited funding for core activities and will always ensure that cost neutral arrangements are in place for service provision at the end of the funding period. An excellent example of this is the Local Area Agreement for Hertfordshire where the Council has actively resisted seeking funds to finance time limited project posts or pump priming grants requiring a commitment from the Authority of guaranteed funding, opting instead to secure funding for individual projects themselves.

Council Tax

4.10 The following table shows the amount of Council tax income since 2008/09. The Council will also receive a council tax freeze grant of £247k per annum from 2011/12 to 2013/14. This reimburses the Council for the effect of the Council tax freeze in 2011/12 and 2012/13.

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Total Council Tax Income (£M)	9,111	9,579	9,780	9,885	9,944	9,356
Taxbase (Band D Equivalent)	48,876	49,461	49,749	50,282	50,586	46,705*
Council Tax Band D(£)	186.41	193.68	196.59	196.59	196.59	200.32

Increase on prior year	4.5%	3.9%	1.5%	0%	0%	1.9%

*The decrease in taxbase in 2013/14 is the result of the adoption of the Local Council Tax Reduction Scheme. Prior to 2013/14 the Council claimed the cost of the payment of Council Tax Benefits from the Department of Work and Pensions.

4.11 In accordance with our existing policy, the expected Council Tax increase for 2014/15 should be no higher than RPI plus two percentage points or 0% plus two percentage points where RPI is a negative figure. This will be assessed in more detail if this is likely to trigger a referendum, as described in the next paragraph.

4.12 The Government has retained the potential to use their capping powers. The Localism Act includes the requirement for a referendum should a council tax increase in excess of 2% be proposed. At this stage a figure of 0% has been used in the forecast financial position at appendix 1. Were we to increase council tax by 2.0% in 2014/15 approximately £200k of additional income would be achieved, with this financial benefit compounded in future years. A 2.0% increase in Council Tax would amount to an increase of 7 pence per week for a Band D property.

5.0 Income Policy

5.1 As a minimum the Council increases discretionary fees and charges annually in line with inflation, as measured by RPI. Responsibility for this process, and subsequent fee levels, lies with Strategic Directors. The Council has taken the decision that certain discretionary services should be provided at a net nil subsidy to the taxpayer and in these cases fees and charges may be increased by more than RPI, should it be required. Any deviation from this strategy has to be explained and reported. Generally speaking, charges are maximised to a level where we are reasonably confident they will not deter use of the service or impact on achievement of the policy objectives the Council is pursuing. We are conscious of the price sensitivity for some areas of our charges and often charges can be in the upper quartile. The charging policy and particularly the level of subsidy for some charges is under constant review. Further work on establishing services which are statutory or those which are discretionary will also influence decisions on charging levels and we make use of a combination of CIPFA (Chartered Institute of Public Finance and Accountancy) statistics, internal performance information and comparative data from other sources, to inform our decisions on charges.

5.2 As part of further developing the Medium Term Financial Strategy, we continue to investigate the continuing appropriateness of service subsidies and also the funding of functions which are the responsibility of other bodies. We recognise that we should give careful consideration to each individual case before reaching a decision and should apply the test: “should the Council Tax payer pay for all or part of a service or should it be the service user?” Many of the services we provide are subsidised and during the budget setting process, service managers are now asked to review the extent of the subsidies and are asked the following questions:-

- Does the service support the Council’s priorities?
- Is the service statutory or discretionary and do we have discretion over the level at which it is provided?
- What proportion or sections of the population use the service?
- What is the level of subsidy?
- What is the reason for the service subsidy?
- Is there a strategy in place which determines the level of subsidy going forward?
- Is there the opportunity to make greater use of or secure external grants to reduce the subsidy?
- What impact would a reduction in the level of subsidy have on the service?
- How much income could be generated by a removal of the subsidy?

- Should any removal be subject to a phasing in process and if so over how many years?

Changes made to service delivery will include an equality impact assessment.

5.3 Research undertaken by LG Futures (a Public Sector Finance advisory service) regarding fees and charges levied by Authorities across the country highlights that, in 2011/12 NHDC had an income to expenditure ratio of 17.1%. Compared to its Nearest Neighbour group, this income to expenditure ratio for NHDC was lower than the average of 19.8%. When compared to other authorities across England, the income to total expenditure ratio was also below average. NHDC was ranked only 120th out of the 201 comparable authorities.

5.4 Very broadly, if the income level for services currently above the median were maintained and those below median were moved to the median level, then the increased income to NHDC is estimated as £1.8m, with highways & transport and cultural & related services being those offering most potential for review. As with any national comparators these figures should be taken as broadly indicative only as allowance is not made for specific local factors. Nevertheless, this area merits further analysis and assessment as even if the estimated change in total revenue was set to the Median benchmark level for all services (i.e. some charges increase to the median, whilst others were decreased to the median) this would still represent an increased income of just over £400k overall.

5.5 Officers note that the Local Government Act 2003 permits local authorities to trade with both public and private sector bodies. In broad terms authorities may not trade for profit unless that activity is performed through a company. The Localism Act, while vesting a general power of competence, retains this requirement. Section 4 of the Localism Act restricts the ability of a local authority to carry out activities for a commercial purpose using the general power. Section 4 (2) provides that if a local authority undertakes a commercial activity in exercise of its general power it must only do so through a limited company. Consequently, these provisions will be considered when exploring alternative service delivery models.

6.0 Capital Arrangements.

6.1 The Prudential Code for Capital Finance in Local Authorities came into operation in April 2004. Under the code, authorities are free to borrow and invest so long as their capital spending plans are affordable, prudent and sustainable.

6.2 Local Authority capital spending improves services, protects the value of the Council’s portfolio of assets and replaces existing assets as they reach the end of their useful lives. Capital investment is not a luxury since without it, local authorities would become unable to deliver even their existing services let alone respond to new demands.

6.3 The code requires authorities to set the prudential indicators specified in the code and to base borrowing decisions on a sound treasury management strategy. The Authority has a separate treasury management strategy which complies with the requirements of the code.

6.4 The code requires Authorities to estimate their borrowing requirement year on year with the unfunded element of the capital programme determining the borrowing limit. Having established the borrowing limit, authorities must then determine whether it is affordable.

6.5 By following the principles of priority led budgeting, we seek to ensure that we can demonstrate how all capital schemes in the programme link to the Council’s vision and strategic priorities and the scoring mechanism for prioritisation is also applied to all capital schemes. This requires an annual reappraisal of all schemes not yet commenced to ensure they are still relevant and to ensure scarce resources are directed to the Council’s main priorities in any one-year. This will mean that inclusion in the future capital programme will not automatically guarantee that a scheme will be undertaken. Due to the nature of the schemes included in the Capital Programme and the long lead-in times for some projects, the Council has adopted an approach of giving a firm commitment to schemes in the next two financial years and outline commitment to those from year three onwards. Given current funding uncertainties, all schemes are subject to annual review. Firm commitment requires the full revenue implications to be included in the revenue budget and the base budget for future years reflects these decisions.

6.6 As a result of the falling available balances of usable capital receipts to fund capital expenditure officers have investigated the legal position with regard to the Council's use of the set aside housing receipts. The Council is able to use some of this funding but will need to ensure it is affordable and do so in a prudent manner.

6.7 The Council will utilise set aside capital receipts in a sustainable and prudent manner to assist in funding the capital programme. Consideration will also be given to opportunities to utilise capital funding for invest to save schemes and proposals where the project can be demonstrated to generate income in excess of the lost interest amount on the capital sum required. The lost interest will be taken to be the five year interest rate. The allowance for lost interest part of the calculation is required to demonstrate that the proposal generates savings in excess of lost interest, however the total revenue saving is accounted for when assessing achievement of annual savings. Note that, both the proposal for use of capital receipts and the total revenue saving will also need to take full account of any potential revenue impact (cost) which may be incurred by the new capital scheme, including where that revenue cost will not necessarily be borne by the instigating service. For 2014/15 onwards a minimum retained capital threshold is set at £20million, being the approximate rolling average five-year capital programme value. This policy will be reviewed at least annually to consider the impact of changing interest rates and also at the point when the minimum capital threshold is approaching.

6.8 The Council will seek to manage all its assets cost-effectively and also to encourage community lessees to move towards running assets on a self-sustaining financial basis to reduce/remove the financial impacts on the wider taxpayer. This will be consistent with the Income policy principles in 5.2 above.

6.9 Opportunities to capitalise staff costs on specific capital schemes will be considered at the outset and included within the scheme budget if appropriate. This approach must be agreed with Accountancy Services in the first instance. Employment costs can be attributed to a capital scheme provided their input satisfies the requirements of FRS 15. In brief, employment costs may be charged to a capital scheme provided their input directly contributes to the completion of the asset. In order to do this, a specific record of the time committed directly to the scheme must be maintained.

6.10 The Government has taken on board concerns regarding the need for greater flexibility on capitalisation by agreeing to consult on allowing some flexibility for local authorities to use asset sale receipts to finance one-off costs of service transformation. This situation will be monitored by NHDC Officers.

7.0 Balances position - General Fund

7.1 Best Practice guidance issued by CIPFA states that the general fund balance may be between 5% and 100% of net expenditure. With an original estimate of net revenue expenditure of over £15 million and a Bellwin Threshold of £35,000, the minimum 5% balance is in the region of £800k.

7.2 When setting the budget each year, the Council considers the potential impact of the risks in the assumptions made and adjusts the minimum 5% figure accordingly. In view of the increasing volatility of funding due to the localisation of Business rates, and also the Council Tax Reduction Scheme, it is prudent to either consider increasing the minimum level of General Fund balance to around 10% to cope with any sudden change in income from business rates or to review the allowance made for the risk of changes to collection patterns. The difficult economic position in recent years has seen occasions when we have experienced a 5% reduction in NNDR income. Under the current scheme, that reduction had no impact on our funding position. Under the proposed new system, the Council will bear the first 7.5% of any loss and, at this stage the potential maximum risk of loss for 2013/14 is estimated in the region of £180k.

7.3 Risks are identified and classified as high, medium or low risk and allowance is made for a proportion of the risk value. For high risk items, 50% of the risk value, for medium risk, 25% of the risk value and for low risk items, 0%. This is regarded as an appropriate risk management approach to risk likelihood and value. Although the total assessment of risk for 2013/14 was £7.9 million, taking a proportion of the risk into account meant that it was prudent to increase balances by £1.5million above the minimum level. This suggested that it was advisable to maintain an overall General Fund balance in the region of £2.3million for 2013/14.

7.4 The 2012/13 outturn figures show a General Fund Balance at 31 March 2013 of £3.160 million. After adjustments, including carry forward requests of £489k, it is anticipated that the General Fund Balance at 31 March 2014 will be £2.300 million. In addition to the General fund balance, the Authority maintains a number of earmarked reserves and provisions, one of which is the special reserve which stands at £0.967 million on 31 March 2013. Members have agreed that this fund will be maintained and used on a phased basis for invest to save projects and to support unavoidable fluctuations in contract prices as contracts are renewed.

7.5 Other reserves and provisions as at 31 March 2013 include the Housing & Planning Delivery reserve (£346k), an Insurance Fund (£17k) used to finance potential claims for risks not covered by external policies, an Information Technology Reserve (£316k) for the purchase of hardware and software items, and an Environmental Warranty reserve (£209k).

8.0 The Financial Context 2014-19

8.1 The existing strategy has been reviewed and the financial principles in section 2 consolidate previous practices and prepare us for the financial element of the Corporate Business Planning process for 2014-19.

8.2 A number of changes 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

Identifying the Efficiency target for 2014 onwards

8.3 Officers across the Authority have been asked to provide estimates for major changes to the base budget for the next five years. These are changes brought about by environmental issues, changes to demography which will impact on service provision, new statutory requirements, actions to support the strategic priorities and service pressures. In accordance with the normal Corporate Business Planning cycle, the estimates provided will be subject to robust scrutiny by Senior Management Team and the Challenge Board over the coming months before the final lists are presented to Members in the autumn. For this year again, in light of the ongoing budget pressures caused by continuing reductions in government support, officers will further build on the analysis of functions that are statutory and those that are discretionary and will continue to work on prioritisation of services and new ways of working. Officers will also be updating the high/low cost analysis to reflect the previously agreed savings and other changes approved as part of the 2013/14 budget. Further assessment of fees & charges levels is also proposed. It is anticipated that the updated analysis will be available for the workshops.

8.4 In line with the original Corporate Plan published in 2005, and the 2013 update titled "Priorities for the District" the Council is still working with partners to ensure North Hertfordshire remains a vibrant place where people can live, work and prosper and, whilst the Council may no longer be able to provide a function directly, the potential for other partners to provide that function will be explored. The Community Rights captured in the Localism Act may play a role in this area. The Council has always recognised that the wider ambitions can only be realised through collaboration and partnership with the whole range of organisations involved in the LSP and elsewhere.

8.5 Over the coming months, Officers will continue to work up estimates in greater detail and Members will need to consider what they are prepared to fund and the risks involved in not providing funding. In accordance with our existing strategy, we will consider;

a) Is the item fundamental to delivery of the vision for the area of North Hertfordshire and delivery of the Council's strategic priorities?
b) Is there an absolute priority that we do this within the next twelve months?
c) What are the risks involved in not proceeding with the project, spending the money or making the proposed reduction?
d) Will the investment result in quantifiable savings in future years, or lead to increased income levels – i.e. is it an invest to save bid, and therefore contributes effectively to our efficiency agenda, or an income optimisation option?
e) What is the realistic timescale required for the project, one or more years?
f) Does the reduction mirror the reduced priority determined by the Council in its Priorities for the District?
g) Will any cost reduction carry on in future years?

8.6 Items put forward for consideration are expected to have explored a number of areas;

- procurement options including partnership or shared working,
- whether the effect on performance of the individual service will align with corporate aims, including taking account of the views of the Overview and Scrutiny Committee on achieving performance indicator targets to the Committee's agreed level.
- comparative information (benchmarking) with other authorities

Service Priority Bids

8.7 Working patterns within Directorates are constantly changing and investment is sometimes needed to facilitate the change and lead to improved services to customers. All investment bids will be subject to further work and a robust scrutiny and scoring process through the Challenge Board as outlined above before inclusion in the draft budget in December. In accordance with the existing strategy, we will continue to seek compensating efficiencies for any growth designed to enhance service delivery and will not therefore make any allowance within the strategy for cost increases in this category.

Key Budget Assumptions

8.8 Inflation indices are reviewed on an annual basis and the forward budget projections amended accordingly. At this stage in the budget planning process, it is prudent to take a cautious approach and, in identifying the likely Council Tax requirement, the strategy focuses on the pressures on expenditure and assumes that income will rise in accordance with the determined policy. Due the large degree of financial uncertainty it has been considered prudent to plan for both 'best' and 'worst' case scenarios based on what is known or anticipated. These scenarios are meant to be as realistic as possible rather than an extreme optimistic or pessimistic approach. The figures presented in the MTFS financial projection at Appendix 1 and 2 include the following assumptions in line with the current financial strategy (worst case scenario assumptions in brackets when different):

- Starting point is the current year base budget
- Year on year spend is adjusted to take account of cyclical variations in expenditure
- Investment income falls in accordance with the cash flow/investment projections to take account of the reducing balance of capital receipts and assumptions regarding interest rates
- Assumed average rate achieved on deals in 2013/14 and onwards of 1% on long term and 0.5% on short term investments.
- Any approved one-off increase in expenditure or carry-forward budgets for 2013/14 have been removed from the base figures in subsequent years
- Reduction in Government support - In March 2013 an additional 1% budget reduction for 2014/15 was added to the 2% budget reduction for 2014/15 that had been announced in the Autumn Statement of November 2012. SR13 added a further 10% to 2015/16. Funding in 2016/17 and 2017/18 is expected to reduce at a similar level.
- New Homes Bonus will be awarded at a similar rate to the previous years (delivery of approximately 350 new homes each year) with a top slice taken off for the funding of the Single Local Growth Fund.
- Contract inflation in accordance with the individual contract terms
- Pay inflation at 1% in each year.
- Pay increments due in 2013/14 and future years have been built in to the model (approximately £80k for 2013/14) Pay increments are part of contractual pay and the calculation is based on those staff due to receive an increment, the remainder having already reached the top of the grade
- Superannuation contribution annual increase towards the pension fund deficit currently estimated at £200k per year until 2017/18 when the rate of increase is anticipated to reduce to £100k per annum. Any further changes to the Local Government Pension Scheme that might be adopted following the current government consultation (LGPS 2014) will need to be reflected in the MTFS assumptions. The Council could apply to make a capital contribution to the fund which would reduce the contribution rate in the future. 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 will need

to increase by 1 to 2% of pay per annum to fund the current deficit on the pension fund. The detailed work to calculate contribution rates begins in July 2013 and results will be available for all employers in November/December 2013.

- No allowance is made for general inflation on remaining expenditure.
- The general principle applied is that discretionary fees and charges income will be increased by RPI at November, currently assuming 3.1% increase. However, some fees may be increased further following actions referenced in para 5.4.
- Use of the special general fund reserve will happen on a phased basis to prevent erratic movements in Council Tax increase.
- Some of the New Homes Bonus will be used for investment in Council priorities over the life of the bonus scheme while the remainder is required to continue the delivery of services in the face of other government funding reductions and is built into the base budget. Any further new investment will require more savings to be made in services. The impacts of the SR2013 announcement that a portion of NHB funding will be pooled amongst Councils within LEP's will be closely monitored.
- The Council tax base figure will rise by 0.5% per annum.
- An assumed 99% collection rate for the purposes of calculating the Council tax base (although this may need to be revisited to reflect potential reduced collection rates for groups adversely affected by the localisation of Council Tax support).
- The minimum General Fund balance will be maintained at 5% of net expenditure plus an allowance for known financial risks.
- The local Council Tax Benefit Scheme will have a cost neutral impact.
- A vacancy savings target set at approximately 3% of salary budget to yield in the region of £0.3 million is included in the base budget in each year.
- Any investment in Area Committee budgets to reflect additional responsibilities will be offset by reductions in Directorate budget

All assumptions are subject to further refinement as we go through the budget process and more certain information becomes available.

8.9 A summary of the general fund estimates is provided in Appendix 1. This includes an assumption that council tax will not be increased over the period of the MTFS. Appendix 2 shows the impact on the same estimates of a 1.9% council tax increase each year. The estimates assume an efficiency target will be achieved each year. This shows an efficiency target for 2014/15 of between £0.5 and 0.6million and a target over the five years of between £2.6 and £3.6million. These targets are required to maintain a minimum general fund balance and to smooth out the impact of the growing funding gap over the period of the MTFS. If the target were lower in 2014/15 then the amount of efficiencies required in future years will increase by more to maintain the same level of general fund reserves.

9.0 Risks inherent in the Assumptions

9.1 At this stage in the budget cycle we are looking at key pressures in future years and those which will have a significant impact on the budget for 2014/15.

9.2 Figures quoted now will vary by the time the draft budget is set in December, once we have further clarity around key funding changes. Work will continue between now and then to further refine the figures and the assumptions used. Reports will be brought to Cabinet at key stages in accordance with the Corporate Business Planning timetable.

9.3 There are a number of key risks associated with the assumptions in this report including delivery of economic growth to generate additional retained business rates, the potential wider implications of the Government's welfare reform agenda, uncertainty in relation to the cost of pensions and uncertainty in relation to funding reductions,.

9.4 More specifically, these can be described as:

- 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 Council Tax 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 rates 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.

9.5 The Authority has a treasury management strategy and the principles of that strategy are used to influence the assumptions made about likely interest receipts. The figures presented include assumptions on the interest rate and the impact of longer term borrowing. There has been no improvement in interest rates since the approval of the budget for 2013/14 in February and in fact the rates available for longer term investments have reduced further. Members should be aware that a 0.5% change in interest rates is equivalent to approximately £250k.

9.6 In considering the impact of potential variations to the figures presented, Members should be aware that a 1% increase in Council Tax in 2014/15 would generate approximately £100k income.

9.7 The Strategy focuses on the next five years and as it rolls forward each year, we will have an eye on the impact on the District, its infrastructure and its partners, and of the pressures to increase housing numbers.

10.0 Conclusion

10.1 The review of the MTFS has been undertaken against the background of significant reductions and changes to funding and the additional cost of service pressures. These factors could jeopardise the Council's sustainable financial position unless budget savings are delivered to allow the Council to deliver its corporate priorities.

10.2 Although SR13 only confirms the extent of government funding cuts to 2015/16, the Chancellor has reiterated that public spending control is central to the Government's commitment to reduce the deficit. Therefore expenditure reduction plans will continue and austerity measures are likely to remain in place until 2018.

10.3 The MTFS identifies potential funding gaps of £0.6m, £0.7m, £0.8m, £1.0m and £0.5m in 2014/15, 2015/16,2016/17, 2017/18 and 2018/19 respectively. The funding gaps are on top of budget savings of £10m that have been taken since 2005.

10.4 Although the financial context is ever more challenging, the Council has a track record of identifying and delivering significant savings and for annual expenditure to be under agreed budget, all within a framework of effective financial planning. This approach will need to continue to ensure that a sustainable financial position can be maintained.