| *PART 1 – PUBLIC DOCUMENT | AGENDA ITEM No. 8 |
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**TITLE OF REPORT: MEDIUM TERM FINANCIAL STRATEGY 2017-2022**

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

## 1. SUMMARY

1.1 This report reviews and updates the existing Medium Term Financial Strategy (MTFS) to reflect the impact of the current economic situation and expected changes in funding, alongside decisions taken by the Council during 2015/16. This is used to model the budget for the next five years and therefore highlight additional decisions that will need to be taken.

1.2 The updated MTFS provides the financial background to the Corporate Business Planning process for 2017-18 and beyond. In common with recent years, the report concludes that it may be necessary to revisit the MTFS in coming months following any further announcements in respect of funding (e.g. the Autumn Statement and any subsequent announcements). It is also noted that longer-term projections will be impacted by the re-baselining of Business Rates and 'localisation' of Business Rate funding within the five-year timeframe of the MTFS.

1.3 Financial modelling undertaken for the MTFS currently projects that the overall budget gap for the four year period 2017/18 to 2020/21 is £2,750k. This is on the assumption that Council Tax will be increased by 1.9% each year and a managed use of reserves. There is a very high uncertainty on funding levels beyond the current national parliament.

## 2. RECOMMENDATIONS

2.1 That Cabinet notes the content of the updated MTFS and the key strands of efficiency savings, service transformation and income generation.

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

## 3. REASONS FOR RECOMMENDATIONS

3.1 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 2017/2018 to 2021/2022 culminating in the setting of the Council Tax precept for 2017/18 in February 2017.

## 4. ALTERNATIVE OPTIONS CONSIDERED

4.1 None. The MTFS production supports the annual budgeting cycle by ensuring that the appropriate resource exists to deliver the priority areas of work to deliver the Corporate Plan 2017-22, also for consideration by Cabinet at this meeting.

## 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 detailed budget proposals in the Member workshops in November 2016.

## 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 5th February 2016.

## 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 28th July 2015.

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

7.4 The Corporate Business Planning process allows for initial high level proposals to be put forward for consideration by each Political group, followed by Member workshops on detailed options in November.

7.5 Council adopted the following high level Corporate Objectives for a minimum five year period ending 31 March 2021 on 16 July 2015:

- To work with our partners to provide an attractive and safe environment for our residents, where diversity is welcomed and the disadvantaged are supported;

- To promote sustainable growth within our district to ensure economic and social opportunities exist for our communities, whilst remaining mindful of our cultural and physical heritage; and

- To ensure that the Council delivers cost effective and necessary services to our residents that are responsive to developing need and financial constraints.

## 8. ISSUES

8.1 The contents of this strategy are our response to the significant financial and service challenges that we face and the need to plan ahead for the future with far fewer resources. However, it is not simply about saving money, it is also about all the things we need to do to make us financially and organisationally stable so that we can continue to deliver our Corporate Objectives and thrive as a resilient council. This includes having plans in place to reflect the uncertainty that is inherent in any future planning, but is particularly relevant at the current time.

**Funding Uncertainty**

8.2 The main general funding streams for the Council are Business Rates, Revenue Support Grant, New Homes Bonus and Council Tax. Each of these is subject to some degree of constraint, reduction or risk.

8.3 Locally retained business rates give us some financial incentive to promote growth in the business base of the district. This should also help to increase employment and therefore assist in reducing welfare dependency. The gains received from any growth are relatively small (around 7%) and there are also similar risks arising from any reductions. There is also a need to fund any refunds that arise from appeals. Central Government has recently launched a consultation on the full localisation of Business Rates. This does not mean that the Council would get to keep all the Business Rates that it collected, or even that they would all remain in Hertfordshire. There would still be a redistribution of Business Rates around the country, and any additional funding will be accompanied by additional responsibilities. The principles in the consultation are reasonable in that they seek to match new funding and responsibilities, both initially and in the medium term. There is also a principle that the new responsibilities make sense in being delivered by local government i.e. they build on local government strengths, support improved outcomes for citizens and support economic growth. The intention is that there will be a local solution for each area, but there is a risk that given the number of authorities involved there could be some degree of imposed solution. The current modelling assumes that business rate income will increase with inflation. It does not try to predict any new funding or responsibilities at this stage, and therefore assumes the status quo.

8.4 The provisional settlement in December 2015 was that income from Revenue Support Grant would reduce much more quickly than had been forecast. The amount in 2016/17 was £339k less than forecast, and no grant received from 2017/18 onwards. In fact we would also be required to pay an additional tariff on business rates (effectively negative revenue support grant) of £1,071k from 2019/20. The final settlement (in January 2016) provided some additional funding as transition grant in 2016/17 and 2017/18. The amounts for 2017/18 onwards are draft at this stage but the offer was made that Authorities could sign up to a four-year budget if they provided an efficiency plan. The Chartered Institute for Public Finance and Accountancy (CIPFA) have produced some guidance on what an efficiency plan would look like, and we will look to comply with this. There is still uncertainty as to the extent to which it could protect us from further funding changes. The current model assumes that Central Government income will be in line with the January 2016 settlement. There is a very high uncertainty on funding levels beyond the current national parliament.

8.5 There is a proposal that the amount of New Homes Bonus (NHB) will be reduced to sharpen the incentive i.e. any bonus will be paid for a shorter period of 4 years rather than 6 years. This change was reflected as part of last years MTFS as it is highly likely to happen. The consultation also included incorporating ‘dead-weight’ to reflect that a number of new homes would be built anyway and therefore we should only receive a bonus for exceeding this level. There is also a consideration as to whether the current split between District and County (currently 80:20) should continue. A shift towards the County element being greater would reduce the income that NHDC received. The other significant element of the consultation is that new NHB will not be paid to those Authorities that do not have a Local Plan. The current model assumes the change to 4 years, but does not build in the other potential adjustments at this time.

8.6 The January 2016 settlement slightly changed the rules on what level of Council Tax increase would trigger a local referendum limit for shire district Councils. Rather than being 2%, it became the higher of £5 or 2%. The current model assumes the policy adopted last year of 0.1% less than the % referendum limit (i.e. 1.9%). Additional Council Tax income would be generated by moving to 1.99% (£9k) or £5 (£46k). Both these totals are for 2017/18 and would compound upwards for each year that they were applied for. By 2020/21 a £5 increase in each year would be an additional £168k income per year (above the 1.9% level). The Council's element of Band D Council Tax would be £231.96 rather than £228.53.

8.7 It is very uncertain what even the short-term impact will be of the referendum decision to leave the EU. A further period of recession seems very likely which would reduce Central Government tax receipts. Alongside this there have been promises made that funding for the NHS will be increased. The Chancellor has said that he will relax his target for closing the budget gap by the end of this parliament. The identity of the new Prime Minister is also likely to affect the direction that the Government will take. We should therefore be ready to review forecasts in light of any further announcements, including the Autumn Budget Statement or a new Budget.

### Balancing the Budget and Use of Reserves

8.8 Balancing the budget will require a consideration of how funding and expenditure can be matched. The ability to be more efficient by reducing resources and staffing levels is now extremely limited. So the strategy will therefore focus on:

- Transformation of services so that they can be delivered at lower cost. This may involve up-front investment to allow the transformation to take place. This could include sharing of services with other organisations to make best use of resources from economies of scale. There may be some changes to the way that residents receive services.
- Looking at ways to make use of our assets (e.g. capital resources) to generate revenue income (or reduce revenue costs). This would include increasing investment returns from our assets.

8.9 The council has built up reserves over the last few years to allow some protection against short-term uncertainties. This also allows some time to implement budget changes, particularly those that require up-front investment or have a lead-in time. The general fund reserve has a balance of £7,085k at 31st March 2016. This is £5,390k higher than the minimum balance approved for 2016/17 of £1,695k.

8.10 The current estimate (based on the significant uncertainties presented above) is that we will need to make £2,750k of savings by 2020/21. However there needs to be a plan in place to manage the impact of funding levels being lower than currently forecast. The very high uncertainty for year 5 (2021/22) makes it difficult to estimate what further savings will need to be delivered.

## 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 2017 to 2022. The attached MTFS will assist the Council in making sustainable decisions by providing a framework within which those decisions may be taken.

9.3 Councillors are reminded of the requirement, under section 30 of the Local Government Finance Act 1992, to set a balanced budget prior to the commencement of the financial year in question; and also that the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of estimates and the adequacy of reserves allowed for in the budget.

9.4 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 Financial implications are generally covered in the body of the report.

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 generally be used for revenue costs. A Capital Receipts Direction that was announced in 2015/16 does allow Councils to make use of new Capital Receipts money to fund the revenue costs of investments that will reduce ongoing revenue costs. However this only applies to new Capital Receipts (not existing reserves that are held) and subject to certain criteria. It is also possible to seek a Capitalisation Direction, which we did for a pension fund contribution in March 2014 and are looking to do again this year (decision made by Council as part of MTFS for 2016/21 in February 2016).

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. Fees and charges income is also a revenue stream. 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.

**11. RISK IMPLICATIONS**

11.1 The key risks within the budget assumptions are referred to in section 8. It is highly likely to be necessary to revisit the MTFS in coming months once there is greater clarity following further announcements, including the Autumn Statement.

11.2 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. The Council has a Top Risk of “Managing the Council’s Finances”. This is monitored by the Finance Audit and Risk Committee. Having an MTFS is a key mitigation to this risk.

## 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 and other relevant legislation. For proposals in excess of £50k, or which affect two or more wards (as key decisions) officers are required to complete an equality analysis.

## 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. Social Value measurement will be applied, though, to any projects proposed through the Corporate Business Planning process where a public service contract is required.

## 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 2017-2022.

## 16. CONTACT OFFICERS

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## 17. BACKGROUND PAPERS

17.1 Corporate Plan 2016/21.

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