*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 7

TITLE OF REPORT: ITEM REFERRED FROM CABINET: 5 AUGUST 2014 – MEDIUM TERM FINANCIAL STRATEGY 2015-2020

The following is an extract from the Draft Minutes of the Cabinet meeting held on 5 August 2014.

33. MEDIUM TERM FINANCIAL STRATEGY 2015-2020

The Portfolio Holder for Finance and IT presented a report of the Strategic Director of Finance, Policy and Governance in respect of the Medium Term Financial Strategy 2015-2020. The following appendix was submitted with the report:

Appendix A – Medium Term Financial Strategy 2015-2020 and General Fund Estimates 2015-2020

The Portfolio Holder for Finance and IT advised that the report reviewed and updated the existing Medium Term Financial Strategy (MTFS) to reflect new requirements, the impact of the current economic situation, second year effects of both Business Rates localisation and the Council Tax Reduction scheme; and the modelling of the next five years, following decisions taken in 2013/14 and the Budget announcements.

The Portfolio Holder for Finance and IT stated that the updated MTFS provided the financial background to the Corporate Business Planning process for 2015/16 and beyond, and noted that the decision to make a contribution to the Pension fund in March 2014 had provided the opportunity to undertake some multi-year planning. In common with recent years, the report concluded that it may be necessary to revisit the MTFS in the coming months once there was greater clarity with regard to the treatment of New Homes Bonus funds. It was also noted that longer-term projections would be impacted by the re-baselining of Business Rates within the five-year timeframe of the MTFS. Financial modelling undertaken for the MTFS projected that the overall budget gap for the period 2015/16 to 2019/20 would be £1.7 million, assuming no council tax increase.

The Portfolio Holder for Finance and IT advised that the Portfolio Holder for Policy, Transport and Green Issues (Councillor Julian Cunningham) had e-mailed him and the Cabinet Chairman with a number of comments on the MTFS, which he would address in the next part of his presentation.

In drawing Cabinet's attention to the MTFS attached at Appendix A to the report, the Portfolio Holder for Finance and IT commented as follows:

- The Council would maintain balances and reserves to enable it to respond effectively to unexpected events and opportunities and would ensure that the level of balances and reserves was 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, the Council would maintain the minimum General Fund balance at 5% of net expenditure for unknown risks, plus a prudent allowance for known risks (when annual budgets were set), and would have a phased approach to the use of balances to ensure that the potential for erratic movements in Council Tax requirements was smoothed as far as possible;
- The Council would continue to explore alternative means of service delivery including partnering, enabling, outsourcing, shared services, trading arrangements, and would aim to make best use of IT and changes to work processes to ensure that cost effective, economic and efficient services were provided at the level the customer required. Where a business case identified future savings, these would be built into the base budgets to encourage managers to realise the anticipated efficiency savings;
- The Council had established a clear link between the budget strategy and the risk register to ensure that necessary funds were available to progress work to mitigate the

Top Risks. The Top Risks were regularly reported to the Finance, Audit & Risk Committee and Cabinet and any impact on budgets was taken into account;

- All investment priority bids for both Revenue and Capital were subject to robust scrutiny from the Corporate Board and Members, in accordance with the scoring matrix set out in the Strategy document. The Portfolio Holder for Finance and IT acknowledged that this methodology was always open for scrutiny and that he had asked officers to arrange a session for Cabinet colleagues to explain the application of the scoring matrix in more detail;
- The Council would continue to use the Corporate Board (formerly the Challenge Board) process to undertake the detailed exploration of budgets to identify potential efficiencies. The Corporate Board would continue the work on value for money and on-going review of services which were statutory and discretionary, with a view to informing decisions on services where the Council may wish to spend less and provide less; and
- The appendices to the MTFS provided three possible scenarios for General Fund Estimates for the period 2015-2020. Appendix 1 showed a 0% Council Tax increase and no efficiencies, which would produce a General Fund balance of £2M in 2019/20, below the level recommended; Appendix 2 showed a 0% Council Tax increase and efficiencies of £1.7M, and Appendix C showed a 1.9% increase in Council Tax and efficiencies of £500,000, both of which would produce General Fund balances in the region of £5.7M in 2019/20.

RESOLVED: That the content of the updated Medium Term Financial Strategy 2015-2020 and the key strands of efficiency savings, development opportunities and income generation, be noted.

RECOMMENDED TO COUNCIL: That the updated Medium Term Financial Strategy 2015-2020, as outlined in Appendix A to the report, as amended, be adopted and communicated to officers as the medium term financial framework for the Corporate Business Planning process.

REASON FOR DECISION: To assist in the process of forward planning the use of Council resources and in budget setting for 2015/2016 to 2019/2020 culminating in the setting of the Council Tax precept for 2015/16 in February 2015.

The following is the report considered by the Cabinet at its meeting held on 5 August 2014.

TITLE OF REPORT: MEDIUM TERM FINANCIAL STRATEGY 2015-2020

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 new requirements, the impact of the current economic situation, second year effects of both Business Rates localisation and the Council Tax Reduction scheme; and the modelling of the next five years, following decisions taken in 2013/14 and the Budget announcements.

1.2 The updated MTFS provides the financial background to the Corporate Business Planning process for 2015-16 and beyond and notes that the decision to make a contribution to the Pension fund has provided the opportunity to undertake some multi-year planning. In common with recent years, the report concludes that it may be necessary to revisit the MTFS in coming months once there is greater clarity with regards to the treatment of New Homes Bonus funds. It is also noted that longer-term projections will be impacted by the re-baselining of Business rates within the five-year timeframe of the MTFS.

1.3 Financial modelling undertaken for the MTFS projects that the overall budget gap for the period 2015/16 to 2019/20 is £1.7 million, assuming no council tax increase.

2. RECOMMENDATIONS

2.1 That Cabinet notes the content of the updated MTFS and the key strands of efficiency savings, development opportunities 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 2015/2016 to 2019/2020 culminating in the setting of the Council Tax precept for 2015/16 in February 2015.

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 'Priorities for the District'.

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 2014.

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 14th March 2014.

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 30th July 2013.

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 for the District' 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 Council adopted the following high level priorities for a minimum five year period ending 31 March 2019 on 5 September 2013:

- Promoting Sustainable Growth
- Working with our Communities
- Living within Our Means

- **Promoting Sustainable Growth**
  This encompasses employment, housing, leisure and the infrastructure to support the necessary growth in the district. The Council needs to continue to encourage an environment in which businesses and people can flourish. The Council's emphasis will be on sustainable growth.

- **Working with local communities**
  As a Council we need to listen to what people tell us is most important and a priority to them and tailor the services provided so that our limited resources are concentrated on the things that matter to our communities. This will inevitably bring challenges as there will be many different opinions about the allocation of resources and it will be difficult to steer a course through the competing opinions to deliver the outcome that is best for North Herts.

- **Living within our means**

  The means at the Council's disposal is not just about money but is also about other resources such as people, knowledge, investments and land and buildings. The Council needs to ensure it is getting the most from all of its resource even if that means radical changes to what is done and how it is done. The aim has to be to stand on our own with little or no government assistance, and keep Council Tax as low as possible with minimal impact on frontline services.

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 stable so that we can continue to deliver our corporate priorities and thrive as a resilient council

8.2 Having already reduced our size and capacity over recent years in response to reductions in resource levels, our ability to continue to make efficiencies without impacting on services, or affecting our performance, is now extremely limited. However, the need to address the ongoing and widening gap and maintain a sustainable financial position is unavoidable. A solution is needed that will address the financial reality but will continue to protect residents.

8.3 Locally retained business rates give us a financial incentive to promote growth in the business base of the district. Similarly, the New Homes Bonus in its current guise rewards councils for increasing housing numbers in their area. Whilst the Business Rates retention scheme presents additional risks to us in terms of losses and appeals, we now have a stake in district growth. This fundamentally supports the Priority of "Promoting Sustainable Growth". Responsibility for cost of council tax support also encourages councils to promote economic prosperity.

It has been widely publicised 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 in achieving our statutory duty to set a balanced budget each year.

8.4 One of the Spending Review announcements last year was that some NHB payments would be pooled in future and that potentially this top slice could take 35% of NHB previously forecast as income to NHDC. Following the consultation period, Government withdrew this proposal and undertook to provide an alternative proposal by Easter 2014. As at mid-July no such alternative proposal has been forthcoming and so the future structure of NHB remains unclear. However, the overall impacts on NHDC funding have been modelled and it is already clear that, whatever assumptions are used the likely revenue funding "gap" over the four year period 2015/16 to 2018/19 will require significant further revenue savings.

8.5 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, how it generates income and to review the things it does in order to deal with the on-going demands and this will continue for several years.

8.6 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. (e.g. Licensing and Land charges fees)
- 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.
- 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.

This year the MTFS makes further explicit proposals to continue advancing the following themes from previous years:

- generating income from council services and assets
- exploring new income generation opportunities
- using capital funds to acquire land and property for development and/or investment purposes with such land used for economic, commercial and business development, or other income generation purposes

8.7 At this stage a figure of 0% Council Tax increase has been used in the estimates and it has been assumed that a Council Tax freeze grant would apply. A 1.9% increase in Council Tax (Government confirmed the threshold for a referendum remained at 2% for 2014/15 and this has also been used as an assumption for later years) 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 at a level equivalent to only a 1% increase in Council Tax. In response to feedback, government now confirms this freeze grant would be built into base funding permanently if the grant was taken although, as this would then be amalgamated into the overall funding figure it is not possible to track its receipt specifically.

8.8 The financial management principles underpinning the Corporate Business Planning approach are given in section 2.2 and the key budget assumptions are laid out at paragraph 9.10 of the MTFS.

8.9 There are a number of key risks in the assumptions after 2014/15 due to uncertainty around the overall impacts of 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. To date, collection rates have remained high and so no adverse impact has occurred. The impacts from unresolved appeals before April 2013 have yet to be felt and it is also noted that a re-baselining of business rates in due within the five-year time horizon of the MTFS.

- Implications of the Welfare Reform Bill and the introduction of the Universal Credit. A 10% cut in funding was passed on to Local Authorities. The Council Tax Reduction Scheme payments 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 indications in the first full year of operation were of no significant adverse impacts on collection rates, however this will be monitored closely. In terms of welfare reform the Local Government Association comment that in two-tier areas the cost implications are expected to fall mainly on District Councils however this cannot currently be modelled.

- Possible changes to the New Homes Bonus system were the subject of government consultation in the autumn of 2013. The results of the consultation feedback led to the government re-thinking their proposed revisions and a new proposal was scheduled to be publicised by Easter 2014. As at mid July 2014 no new proposal has emerged.

- There also remain a number of other unknowns with regard to changes to existing funding streams. For example the Better Care Fund is not 'new funding' but an amalgamation of money top sliced from a range of schemes, including the Disabled Facilities Grant scheme, and thus whilst there may appear a benefit in terms of receipt of one fund, it could be at the detriment of the existing source. Such changes will be kept under review, and appropriate action taken to readjust forecasts, estimates, budgets etc. should this be necessary.

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 2015 to 2020. The attached MTFS will assist the Council in making sustainable decisions by providing a framework within which 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 Due to the budget balancing measures taken in 2013/14, NHDC now has the opportunity to put in place plans to achieve a balanced budget over a longer timescale than just the coming year. By planning for the medium to longer term, consideration can be given to transformation projects which may require some initial investment before delivering benefits from 2016/17 onwards. These include work on the council's future office accommodation needs, future car-parking policies, further channel shift work to deliver more of our services electronically where that is more cost effective, new income generation and development opportunities and continuing work on sharing services with other authorities.

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 and specific approval is obtained (as was the case for the pension contribution in March 2014). 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.

10.4 The review of the MTFS has once again been undertaken against the background of significant reductions and changes to funding, and the additional cost of service pressures, bringing with them the need to plan ahead for the future with far fewer resources. These factors could jeopardise the Council's sustainable financial position unless budget savings and income generation are delivered to allow the Council to deliver its corporate priorities. The lump sum payment to the Pension fund has contributed considerably to balancing the budget for the next five years and so this opportunity will be taken to make longer-term plans. The overall financial management strategy is not simply about saving money, it is concerned with all the things that need to be done to make NHDC financially stable so that we can continue to deliver our overall strategy and thrive as a resilient council.

10.5 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 outside of local government control to varying degrees. 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 may be reduced due to changes Government make to the scheme. In terms of other options to raise additional local income, this necessitates a wider public understanding of the impacts of funding cuts and the requirement to levy new charges to help fund essential services.

10.6 If a 0% Council Tax increase is maintained over the review period and no efficiency measures are put in place, the special reserve and balances will erode from almost £7 million in 2014/15 (£5.2m in balances and £1.8m in special reserve), to only £2.1m in 2019/20 (just over £2m in balances and only £0.045m in special reserve). These are maintained to firstly provide some protection against the cost impacts of the major risks the council faces, and secondly to fund invest to save projects and address unavoidable fluctuations in contract prices when contracts are renewed. A balance of only £2m would leave the Council in an exposed position. However, by combining continued efficiency savings with modest Council Tax increases, the council is able to deliver services and maintain relative stability and resilience.

11. RISK IMPLICATIONS

11.1 The key risks within the budget assumptions are referred to in section 8.8. It may be necessary to revisit the MTFS in coming months once there is greater clarity with regards to the treatment of New Homes Bonus funds. It is also noted that longer-term projections will be impacted by the re-baselining of Business rates within the five-year timeframe of the MTFS.

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.

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.

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 2015-2020 and General Fund Estimates 2015-2020.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

17.1 Priorities for the District 2014/15
Budget Estimates 2014/2015
Statement of Accounts 2013/14
Capital Programme – 2014/15 onwards