*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 7

TITLE OF REPORT: ITEM REFERRED FROM CABINET: 28 JULY 2015 – MEDIUM TERM FINANCIAL STRATEGY 2016-2021

The following is an extract from the Draft Minutes of the Cabinet meeting held on 28 July 2015.

32. MEDIUM TERM FINANCIAL STRATEGY 2016-2021

The Executive Member for Finance and IT presented a report of the Strategic Director of Finance, Policy and Governance in respect of the Medium Term Financial Strategy (MTFS) 2016-2021. The following appendix was submitted with the report:

Appendix A – Medium Term Financial Strategy 2016-2021 and General Fund Estimates 2015-2021.

The Executive Member for Finance and IT advised that Financial modelling undertaken for the MTFS currently projected that the overall budget gap for the period 2016/17 to 2020/21 would be £2.6 million, assuming no council tax increase.

The Executive Member for Finance and IT commented that the contents of the Strategy was the Council's response to the significant financial and service challenges that it faced and the need to plan ahead for the future with far fewer resources. However, it was not simply about saving money, it was also about all the things the Council needed to do to make it financially and organisationally stable so that it could continue to deliver its Corporate Objectives and thrive as a resilient council. Having reduced its size and capacity over a number of years in response to reductions in resource levels, the Council's ability to continue to make efficiencies without impacting on services, or affecting its performance, was now extremely limited. However, the need to address the ongoing and widening gap and maintain a sustainable financial position was unavoidable. A solution was needed that would address the financial reality, but would continue to protect residents and the approach would be to increase efficiencies and income generation, underpinned by service transformation activities.

The Executive Member for Finance and IT explained that a number of changes to the MTFS, as detailed in Paragraph 8.7 of the report, had been implemented in recent years to further improve the Council's financial management strategy. This year, the MTFS made further explicit proposals to continue advancing the following themes from previous years:

- That discretionary fees and charges were increased by CPI plus 2%;
- The Council would set the level of Council Tax increase year on year at no more than 0.1% below the Referendum threshold imposed by Government. If no Referendum threshold was imposed, the Council would ordinarily set the level of Council Tax increase year on year at no more than 2%;
- Introduction of specific policy papers for Reserves and Fees and Charges;
- Introduction of a specific Asset Management section;
- That, as part of the annual budgetary process, Full Council may approve that unallocated Area Committee budgets could be carried forward from one year to the next and not be subject to the normal rules for carry forward budgets; and
- The potential to utilise social media for budget consultation and/or an externally facilitated participatory budget exercise.

The Executive Member for Finance and IT advised that, at this stage, a figure of 0% Council Tax increase had been used in the estimates and it had 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 2015/16 and this had also been used as an assumption for later years) would generate approximately £190,000 and would amount to an increase of around 8 pence per week for a Band D property.

The Executive Member for Finance and IT referred to a number of key risks in the assumptions after 2015/16 due to uncertainty around the overall impacts of ongoing Government funding reductions including the localisation of Business Rates; Universal credit under the Welfare Reform Act; Possible changes to new Homes Bonus; changes to existing funding streams; the costs of waste management and disposal; and the provision of a long-term waste disposal site.

The Executive Member for Finance and IT concluded by stating that, if a 0% Council Tax increase was maintained over the review period and no efficiency measures were put in place, the special reserve and balances would erode from £8.2 million in 2016/17 (£6.5m in balances and £1.7m in special reserve), to a negative figure of £290,000 in 2020/21 and the Council would not have a balanced budget. Balances were maintained for a number of reasons, including to provide some protection against the cost impacts of the major risks the Council faced, and to fund invest to save projects and address unavoidable fluctuations in contract prices when contracts were renewed. A negative balance of under £300,000 would leave the Council in an extremely exposed position. However, by combining continued efficiency savings with modest Council Tax increases, the Council should be able to deliver services and maintain relative stability and resilience.

RESOLVED: That the content of the updated Medium Term Financial Strategy 2016-2021 and the key strands of efficiency savings, development opportunities and income generation, be noted.

RECOMMENDED TO COUNCIL: That the updated Medium Term Financial Strategy 2016-2021, as outlined in Appendix A to the report, 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 2016/2017 to 2020/2021 culminating in the setting of the Council Tax precept for 2016/17 in February 2016.

The following is the report considered by the Cabinet at its meeting held on 28 July 2015.

TITLE OF REPORT: MEDIUM TERM FINANCIAL STRATEGY 2016-2021

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, effects of both Business Rates localisation and the Council Tax Reduction scheme; and the modelling of the next five years, following decisions taken in 2014/15 and the Budget announcements.

1.2 The updated MTFS provides the financial background to the Corporate Business Planning process for 2016-17 and beyond. In common with recent years, the report concludes that it may be necessary to revisit the MTFS in coming months following the Autumn Statement. 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 currently projects that the overall budget gap for the period 2016/17 to 2020/21 is £2.6 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 2016/2017 to 2020/2021 culminating in the setting of the Council Tax precept for 2016/17 in February 2016.

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 2016-21, 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 2015.

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 2015.

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 5th August 2014.

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.

8.2 Having reduced our size and capacity over a number of 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 and the approach is to increase efficiencies and income generation, underpinned by service transformation activities.

8.3 Locally retained business rates give us a financial incentive to promote growth in the business base of the district and this will also assist in some measure to reduce welfare dependency. Similarly, New Homes Bonus (NHB), whilst (and if) it continues unchanged in regard to its application, rewards councils for increasing housing numbers in their area. Although the Business Rates retention scheme presents additional risks to us in terms of losses and appeals, we now have a stake in district growth and it can also offer opportunities to “pool” with other Hertfordshire authorities, as we have done for 2015/16. This fundamentally supports the Council’s objective to promote sustainable growth. Responsibility for cost of council tax support also encourages councils to promote economic prosperity.

8.4 It was widely publicised during the 2015 General Election campaign that the period of constrained Public Sector funding, and challenging budget balancing requirements, will continue for some years. The Budget announcements of 8th July gave some more direction around these constraints. 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.

8.5 Government had undertaken to propose a new basis for NHB payments by Easter 2014. As at 15th July 2015 no such alternative proposal has been forthcoming and so the future structure of NHB remains unclear. However, the impacts on overall NHDC funding have been modelled and it is already clear that, whatever assumptions are used, the likely revenue funding “gap” over the five year period 2016/17 to 2020/21 will require significant further revenue savings.

8.6 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 at what level) and to review the functions it performs in order to deal with the on-going demands and this will continue for several years.

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

- Review the level of income generated by services that charge compared to the costs of provision. (e.g. Licensing and Land charges fees)
- Amending the Council Tax “rule” to reflect the possibility of negative RPI figures.
- 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.
- 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

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

  - That discretionary fees & charges are increased by CPI plus 2%
  - The Council will set the level of Council Tax increase year on year at no more than 0.1% below the Referendum threshold imposed by Government. If no Referendum threshold is imposed, the council will ordinarily set the level of Council Tax increase year on year at no more than 2%
  - Introduction of specific policy papers for Reserves and Fees & Charges
  - Introduction of a specific Asset Management section
  - That, as part of the annual budgetary process, Full Council may approve that unallocated Area Committee budgets can be carried forward from one

year to the next and not be subject to the normal rules for carry forward budgets.
   - The potential to utilise social media for budget consultation and/or an externally facilitated participatory budget exercise.

8.8 In previous years the inflationary measure used by NHDC has been the Retail Prices Index (RPI); however this Index and its derivatives have been assessed by the Office for National Statistics (ONS) and found not to meet the required standard for national statistics. CPI is now the Government recognised measure of inflation. RPI will continue to be calculated by ONS as it is still used, for instance in ongoing contractual arrangements. By way of comparison, the CPI annual rate was 0.0% in June 2015 and the RPI rate was 1.0%.

8.9 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 2015/16 and this has also been used as an assumption for later years) would generate approximately £190k and would amount to an increase of around 8 pence per week for a Band D property (see General Fund summaries in appendices). 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.

8.10 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 10.10 of the MTFS.

8.11 There are a number of key risks in the assumptions after 2015/16 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% (~£190k) before the “safety net” applies. To date, collection rates have remained high and so no adverse impact has occurred. The deadline for submission of backdated appeals was 31st March 2015 and led to an increase in appeals provision to £2.34m overall. It is also noted that a re-baselining of business rates is due within the five-year time horizon of the MTFS.

- Implications of the Welfare Reform Act and the introduction of the Universal Credit. A 10% cut in funding was passed on to Local Authorities. The scheme was implemented from 1st April 2013 and indications in the early years of operation were of no significant adverse impact 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 and so the Authority will continue to monitor local impacts.

- Possible changes to the NHB 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 15th July 2015 no new proposal has emerged. As a result of this ongoing uncertainty around the NHB scheme, allied with the understanding that the number of new residential properties built in the district may not continue at current levels, the Council will seek to reduce its reliance on NHB to balance the budget.

- 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.

- The costs of waste management and disposal continue to be a pressure. There is no assurance that funding received from Hertfordshire County Council under the Alternate Financial Model (AFM) will continue. Landfill tax rate has increased by £8 per tonne per annum until 2014/15. Future rises will be inline with RPI. Prices for recyclable material continue to fluctuate with further falls in income representing a potential risk to the authority.

- The provision of a long-term waste disposal site is a key challenge for all Hertfordshire Councils. We are currently supporting the County Council in the search for a long-term Transfer Station to support waste and recycling collection operations; and exploring the opportunity to work in partnership with a neighbouring authority for the provision of waste, recycling and street cleansing services.

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 2016 to 2021. 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 Due to the budget balancing measures taken in previous years, NHDC 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 is being given to transformation projects which may require some initial investment before delivering benefits in future years. These include work on the council's future office accommodation needs, leisure centre development, further channel shift work 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. 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. In some instances initial capital expenditure on service provision can reduce ongoing revenue costs, and therefore reduce pressure on revenue budgets (invest to save), and these opportunities are given serious consideration wherever possible. The Council is also exploring opportunities to utilise Capital funds to generate additional revenue income streams that will also relieve some of the pressure on services.

10.4 For many years now, 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, bringing with them the need to plan ahead for the future with far fewer resources. These factors have the potential to jeopardise the Council's sustainable financial position unless budget savings, income generation and service transformation are delivered to allow the Council to deliver its corporate objectives. 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 organisationally and financially stable so that we can continue to deliver our overall strategy and thrive as a resilient council.

10.5 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 £8.2 million in 2016/17 (£6.5m in balances and £1.7m in special reserve), to a debit of £290k in 2020/21. These are maintained for a number of reasons, including to provide some protection against the cost impacts of the major risks the council faces, and to fund invest to save projects and address unavoidable fluctuations in contract prices when contracts are renewed. A balance of under £300k would leave the Council in an extremely 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 8.11. It may be necessary to revisit the MTFS in coming months once there is greater clarity following the Autumn Statement. 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. 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 2016-2021 and General Fund Estimates 2015-2021.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

17.1 Corporate Plan 2016/21

Budget Estimates 2014/2015
Statement of Accounts 2013/14
Capital Programme – 2014/15 onwards