

FINANCE, AUDIT AND RISK COMMITTEE

12 June 2017

***PART 1 – PUBLIC DOCUMENT**

AGENDA ITEM No.

18

TITLE OF REPORT: MEDIUM TERM FINANCIAL STRATEGY (2018-23)

REPORT OF: HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

EXECUTIVE MEMBER: CLLR JULIAN CUNNINGHAM

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

The Medium Term Financial Strategy (MTFS) for the Council is refreshed on an annual basis. It forms the basis for setting the Council's budget for the following year. The MTFS and the Corporate Plan must be aligned to ensure Council's spending can deliver the objectives that it wants to achieve. At the same time the Council's objectives need to consider the resources available.

The draft MTFS will be considered by Cabinet at its meeting in July, and recommended on to Council in September for adoption. The MTFS provides an estimate of the funding available to the Council and then details the assumptions and policies on which these forecasts are based. This report gives this Committee a chance to comment on the process, assumptions and policies to be used in the MTFS. These comments will be considered by the Executive Member and Cabinet in determining the draft MTFS for 2018-23.

2. RECOMMENDATIONS

- 2.1 That the Committee comment on the assumptions and policies used in last year's Medium Term Financial Strategy (MTFS) which are likely to form the basis for the MTFS for 2018-23.

3. REASONS FOR RECOMMENDATIONS

To allow the Committee to fulfil their role "to review and recommend the Medium Term Financial Strategy to Cabinet" (Constitution Section 10.1.5 b). This should include (although is not limited to) the procedures, policies and process.

4. ALTERNATIVE OPTIONS CONSIDERED

In previous years the Committee has only commented on the Budget later in the process through reports received in December and January. This has limited the ability of the Committee to comment on the procedures, policies and process aspects of the strategy.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 The approved Medium Term Financial Strategy will be communicated to members, staff and key stakeholders.
- 5.2 In previous years Members have been consulted on detailed budget proposals in the Member workshops held in November.

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key decision and has not been referred to in the Forward Plan.

7. BACKGROUND

- 7.1 The Medium Term Financial Strategy (MTFS) for the Council is refreshed on an annual basis. It forms the basis for setting the Council’s budget for the following year. It is imperative that the MTFS and the Corporate Plan are aligned as the Council’s spending needs to be aligned to the objectives that it wants to achieve. At the same time the Council’s objectives need to consider the resources available. Cabinet set the high level objectives in June which are then used to inform the MTFS and the
- 7.2 The draft MTFS will be considered by Cabinet at its meeting in July, and recommended on to Council in September for adoption. The draft MTFS has not yet been started, but due to the timing of Committees there will not be an opportunity for this Committee to comment on the version that is considered by Cabinet. This report reflects the process, assumptions and policies used last year.

8. RELEVANT CONSIDERATIONS

Funding

- 8.1 The MTFS provides an estimate of the funding available to the Council, how this compares with projected spend and therefore the actions that need to be taken to achieve a balanced budget. Table 1 below shows the forecasts for funding, expenditure and use of balances that were part of the budget agreed by Council in February.

2017/18		2018/19	2019/20	2020/21
Funding				
0	Revenue Support Grant	0	(1,070)	(1,125)
140	Transitional Funding	0	0	0
2,545	Business Rates Baseline (share of income less tariff)	2,628	2,721	2,757
1,986	New Homes Bonus	1,265	1,119	1,252
10,555	Council Tax	10,852	11,152	11,455
(39)	Compensation to Parish Councils	(39)	(24)	(24)
15,187	Total non-specific funding	14,706	13,898	14,315
Expenditure				
17,474	Forecast spending before savings and income generation	17,769	17,939	18,346
(954)	Identified Savings and Income generation (estimated, requires delivery)	(1,853)	(1,843)	(1,995)

0	Estimated savings from purchasing waste vehicles	(500)	(500)	(500)
0	Minimum additional savings, still to be identified and delivered	0	(623)	(1,430)
16,520	Total forecast expenditure	15,416	14,973	14,421
Use of Balances				
1,333	Forecast use of General Fund balance	710	1,075	106

Table 1- Funding forecasts 2017-21, as at February Council

- 8.2 It was expected that there would be a move to 100% Business Rates Retention by 2019/20, but the General Election in June has meant that the required legislation for this will now not be in place in time for this. It is also possible that this legislation will not be a priority for a new Government, so it may not just be the case that it is delayed until 2020/21. The Business Rates change will not result in more funding for Local Government, but it is expected to better reward growth in Business Rates and will be based on a revised needs analysis to determine the split of funding between Authorities.
- 8.3 The forecast of Business Rates is based on what Central Government determine to be the Council's baseline need, which is a prudent assumption. The Council does get to retain some of the growth in Business Rates and we could change the assumption to reflect this. However any growth is highly uncertain and as well as being affected by the number of businesses in the district, is also affected by collection rates, revaluations and the status of appeals.
- 8.4 The forecast for New Homes Bonus is based on planning forecasts of the number of new homes that will be built over the next few years, and comparing this to a deadweight level of 0.4% growth (i.e. only growth above 0.4% receives additional funding). There is a risk that Central Government will make further changes to the level of deadweight which could further reduce the income that the Council receives from this source.
- 8.5 For the 2017/18 budget, Council agreed to a £5 increase in Council Tax for a Band D property (2.4%). Council tax for other bands increases by the same percentage. This is the maximum amount that Council Tax can be increased by without the need for a local referendum. The current forecasts are based on this £5 per year increase continuing. The increase in rate of Council Tax is combined with an assumption of a 99% collection rate and a 0.5% growth in the Council Tax base (the number of properties in the area which are liable for Council Tax). In recent years the annual growth has exceeded 1% per year, and there is scope to change future assumptions on this basis. The impact on this would be to increase the available funding by around £54k in 2018/19 and by over £170k in 2020/21. There is a risk that the levels of housing growth do not happen and the Council would then have to make further reductions in spending at a later date.
- 8.6 The Council continues to provide compensation to Parish Councils in relation to the Council Tax Reduction Scheme. This was previously funded from a specific grant, but was then rolled in to the total funding that the Council receives from Central Government. The amount provided has been reduced over time in line with the reduction in funding that the Council receives from Central Government.

Reductions in Expenditure and Income generation

- 8.7 The forecasts of expenditure (table 1) in future years include identified ways to reduce expenditure and generate income. In a number of cases the amounts are a best estimate. In some cases, there is significant uncertainty over the savings that will actually be achieved. For example, the waste contract saving will be dependent on the bids received from the contractors. This table also details the savings that still need to be identified, and there is obviously even more uncertainty over these.
- 8.8 Since the 2017/18 budget was set, this Committee has received revenue budget monitoring reports for the Third Quarter (in March) and End of Year (this meeting). Together these have highlighted a £24k reduction in forecast spend for 2017/18 onwards.
- 8.9 The budget agreed by Council for 2017/18 included an uncertainty relating to the review of National Joint Council (NJC) Local Government pay scales. This is still a potentially significant issue for setting a budget for 2018/19 and beyond. There was also a potential opportunity to make a lump sum pension contribution that was funded from capital. The required approval from the Department of Communities and Local Government (DCLG), but this was not granted.
- 8.10 Last year's MTFs determined the following strategies for reducing expenditure and/ or increasing income:
- 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.

Use of Balances

- 8.11 The budget for 2017/18 was set based on having a General Fund balance of £6.4million at the start of the year, and by the end of 2020/21 this would be reduced to £3.2 million. By 2020/21 the forecast income and spend would be approximately equal. The actual General Fund position at the start of 2017/18 is £8.2million. This could give the Council the opportunity to plan to balance its funding over a longer period. Given the uncertainty over delivery of savings and the future Local Government funding (especially in relation to areas that are not Social Care), it would seem sensible to balance the Council's funding as quickly as possible. This then maximises the Council's ability to deal with future pressures.

Other policies

- 8.11 This is a list of some of the other policies contained within the MTFs that may need to be reviewed as part of the refresh for 2018-23.
- **Pay inflation (expenditure)**- currently assumed at 1% per year. As well as the immediate impact of the national pay review, there is also a need for salaries to track the general market on an ongoing basis. This may mean that the 1% needs to be reviewed.

- **General inflation (expenditure)**- currently assumed to be zero. This needs to be kept under review as otherwise current agreed service levels will not be affordable within the budget set.
- **Discretionary fees and charges (income)**- increases currently set at Consumer Price Index + 2%. There is also a policy that these services should move towards a break-even position. This should mean that the cost of these services is fully met by those that use the service, and not the general Council Taxpayer. However, the actual income received is also affected by the actual usage of these services, and there will be situations where increasing the amount charged actually reduces the total income.
- **Annual reappraisal of all capital schemes** to ensure that they continue to meet Council Priorities and offer Value for Money. This is in the context of reducing capital funding. During 2016/17 the value of the Council's retained capital fell below £20million. It is expected that the remaining balance will be substantially used over the life of this MTFS. It is expected that capital expenditure would then need to be funded from borrowing, which would mean that there would be significant revenue implications of undertaking capital investment.

9. LEGAL IMPLICATIONS

- 9.1 The Finance, Audit and Risk Committee have a role "to review and recommend the Medium Term Financial Strategy to Cabinet" (Constitution Section 10.1.5 b). This should include (although is not limited to) the procedures, policies and process.
- 9.2 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 There is a 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.
- 9.3 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 These are generally covered throughout Section 8. There is a requirement for the Council to set a balanced budget, although this can include a managed use of reserves. The Medium Term Financial Strategy, and the detailed budget for 2018/19 that will follow, therefore need to consider how the Council can manage its spend within the funding available. This needs to include some flexibility as the amount of funding in future years is very uncertain.
- 10.2 The Council currently has Capital Reserves that it can use to fund capital projects. This funding is diminishing and it is important that the Council considers how it will fund future capital expenditure. This may include a review of current projects to ensure that they still meet Council priorities and offer Value for Money.

11. RISK IMPLICATIONS

- 11.1 Section 8 references a number of risks, particularly in relation to the funding that the Council will receive. "Managing the Council's Finances" is recognised as a Top Risk for the Council.

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their 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.
- 12.2 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. The sound management of funds ensures that the Council has sufficient monies to support the improvement of district facilities. By setting a balanced budget the council seeks to balance resources against the aspirations of the council's objectives.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 The Social Value Act and "go local" policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 Paragraphs 8.9 and 8.11 reference specific considerations in relation to levels of pay and future pay inflation.
- 14.2 Human resource implications that may arise from any proposed efficiencies and investment proposals will be considered as they are developed.

15. APPENDICES

- 15.1 None.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

Medium Term Financial Strategy for 2017-22.

<http://web.north-herts.gov.uk/aksnherts/images/att11388.docx>