

TITLE OF REPORT: ITEM REFERRED FROM CABINET: 25 JULY 2017 – MEDIUM TERM FINANCIAL STRATEGY 2018-2023

The following is an extract from the Draft Minutes of the Cabinet meeting held on 25 July 2017.

21. MEDIUM TERM FINANCIAL STRATEGY 2018 TO 2023

The Executive Member for Finance and IT presented the report of the Strategic Director of Finance, Policy and Governance in respect of the Medium Term Financial Strategy (MTFS) 2018-2023. The following appendix was submitted with the report:

Appendix A – Medium Term Financial Strategy 2018-2023.

The Executive Member for Finance and IT advised that the MTFS derived directly from the Corporate Plan, which put in place the Council's high level strategic direction. The MTFS was concerned with the infrastructure underneath the Corporate Plan to ensure that the Council had in place the necessary finances to deliver the Plan.

The Executive Member for Finance and IT stated that the financial position continued to be uncertain. There was a financial settlement in place for three years, but beyond that timeframe the position was unclear.

The Executive Member for Finance and IT explained that it was forecast that the Council would need to reduce its expenditure or generate additional income of £4.2 Million per year by 2021/2022.

The Executive Member for Finance and IT outlined some of the key points contained in the MTFS, as follows:

- The MTFS now assumed a 3% staff pay increase in 2018/19 and 2019/20, followed by a 2% increase each year thereafter, it had previously assumed a 1% increase in each year. This would require a change to the current national 1% public sector pay cap policy for these pay increases to take place. If this cap was not lifted, then this pressure would reflect the cost pressures to maintain the staff resources to deliver services. The combined effect financially would be an additional £750,000 over 4 years;
- Last year's MTFS had assumed 0.5% growth in the Council Tax base (i.e. number of Band D equivalent properties paying Council Tax). Actual growth in the Council Tax base in recent years had exceeded 1% per year. It was expected that this level of growth would continue going forward and therefore the assumed growth had been changed to 1% per year;
- In respect of the New Homes Bonus, the 0.4% baseline was assumed each year. The figures in the MTFS were based on the assumption that the Local Plan was adopted. If it were not adopted then housing growth was likely to be much lower;
- Over the life of the MTFS, the available capital resources would be substantially diminished. After this, the cost of capital investment would be substantially higher as it would incorporate borrowing charges and Minimum Revenue Provision. The Capital Programme (for all projects that were not committed to start) would be reviewed to ascertain whether each project was necessary for continued service provision and, if the project were for investment, what return would it provide (and would it still provide a positive return if were necessary to borrow money to fund the project); and
- Officers (including Corporate Board) would continue to review current models of service delivery, and put forward proposals as to potential changes and the savings that could be achieved. This would include the determination of what non-statutory services were being provided (including services that exceeded the statutory level of provision) to ensure that there was a case for continued delivery.

RECOMMENDED TO COUNCIL: That the Medium Term Financial Strategy 2018-2013, as attached at Appendix A to the report, be adopted.

REASON FOR DECISION: To assist in the process of forward planning the use of Council resources and in budget setting for 2018/19 to 2022/23, culminating in the setting of the Council Tax precept for 2018/19 in February 2018.

The following is the report considered by the Cabinet at its meeting held on 25 July 2017.

TITLE OF REPORT: MEDIUM TERM FINANCIAL STRATEGY 2018 TO 2023

REPORT OF: STRATEGIC DIRECTOR FOR FINANCE, POLICY & GOVERNANCE
EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM
COUNCIL PRIORITY: ATTRACTIVE AND THRIVING / PROSPER AND PROTECT / RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

1.1 This report recommends the Medium Term Financial Strategy (MTFS) for 2018/23 to guide and inform the 2018/19 Corporate Business Planning Process. The updated version of the Strategy reflects the impact of expected changes in funding alongside decisions taken by the Council during 2016/17. This is used to model the budget for the next five years and therefore highlight additional decisions that will need to be taken. The focus is on finding new ways of generating income and determining which non-statutory services the Council can afford to continue delivering.

2. RECOMMENDATIONS

2.1 That Cabinet recommends to Full Council the adoption of the Medium Term Financial Strategy 2018-23 as attached at Appendix A.

3. REASONS FOR RECOMMENDATIONS

3.1 Adoption of a MTFS and communication of its contents will assist in the process of forward planning the use of Council resources and in budget setting for 2018/2019 to 2022/2023, culminating in the setting of the Council Tax precept for 2018/19 in February 2018.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 None.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 No external consultation has been undertaken in the preparation of this report. The Finance, Audit and Risk Committee considered a report (at meeting on 12th June 2017) that set out the key issues that would need to be addressed in determining a MTFS. They commented on:

- The need to undertake modelling work on the impact of pay inflation in excess of the 1% increase currently assumed, particularly in the light of the impact of the national pay review and the salaries paid by neighbouring authorities.
- The need to undertake modelling work on the best use of Capital resources and the tolerance of risks associated with potential significant Capital Investment on schemes aimed at generating revenue income.

5.2 Members will be aware that consultation is an integral part of the Corporate Business Planning process, and consultation on the individual actions and projects planned to support the Objectives will be carried out in accordance with the Corporate Business Planning Timetable and the Council's Consultation Strategy.

Wherever it is available, use will be made of valid opinion research data and, where applicable, outcomes of the Districtwide Survey.

- 5.3 As in previous years, Member workshops will be held in regard to corporate business planning proposals, in addition to seeking the views of the Finance Audit and Risk Committee, the North Hertfordshire Partnership (LSP), parish, town and community councils, panel of residents, statutory partners and business ratepayers views as appropriate

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 3rd March 2017.

7. BACKGROUND

- 7.1 Before considering the detailed budget position for the authority, the Corporate Business Planning Process requires that the Council's high level objectives are determined. At its meeting on 13th June 2017, Cabinet agreed that there should be no change to the Corporate Objectives.

- 7.2 The Council's budget and its objectives are inextricably linked. There is no point in having a service or key project that cannot be funded and no point in spending limited resources (including staff resources) if they are not achieving the objectives that have been set. This aligns the agreed Policy of the Council with the finances which will deliver it.

- 7.3 The Corporate Plan, proposed for adoption in this same committee cycle, informs the opportunities and risks facing the district, and also identifies the things the Council will do to ensure that it is being delivered.

8. RELEVANT CONSIDERATIONS

- 8.1 The Medium Term Financial Strategy attached as Appendix A details the forecast impact of reducing resources, and quantifies what the Council will need to do to balance its budget in the medium term (including a managed use of reserves in the short term). It is forecast that the Council will need to reduce its expenditure or generate additional income of £4.2 million per year by 2021/22. Given the scale of the budget savings that need to be found, it is imperative that spend is aligned to Council priorities, which is known as 'policy led' budgeting.

- 8.2 The MTFS highlights the following:

- The significant uncertainty over future forecasts and that the Council should aim to balance funding and expenditure by 2020/21
- The impact of the Department for Communities and Local Government (DCLG) refusing the Council's request to make a capitalised lump sum pension payment
- Provides a budget for pay increases above 1% to reflect the potential impact of the National Joint Council (NJC) pay review
- The estimated growth in the Council Tax base (the number of households paying Council Tax) is assumed to be 1%
- New Homes Bonus funding will be affected by any changes that are made to the baseline percentage, and is likely to be significantly reduced if the Local Plan is not adopted
- The Council's capital reserves will be significantly diminished over the life of the MTFS

- All spend (revenue and capital) should be reviewed to ensure that it is providing statutory services or has been prioritised in relation to meeting Council objectives
- There should be a continued focus on generating income from commercial activities

8.3 Subject to Cabinet's consideration, the MTFS at appendix A will be referred to Council for adoption on 31st August 2017.

9. LEGAL IMPLICATIONS

9.1 Cabinet's terms of reference include at 5.6.35 the power, by recommendation "to advise the Council in the formulation of those policies within the Council's terms of reference". Council's terms of reference include at 4.4.1(b) "approving or adopting the budget". The MTFS is part of the budget setting process.

9.2 The purpose of the report is to outline a medium term financial management strategy for 2018 to 2023. 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.

10. FINANCIAL IMPLICATIONS

10.1 Both revenue and capital financial implications are covered in section 8 and Appendix A.

11. RISK IMPLICATIONS

11.1 The key risks within the budget assumptions are referred to in section 8 and Appendix A. Section 2.13 of Appendix A highlights some of the impacts of changes in the assumptions made. It is highly likely to be necessary to revisit the forecasts made, especially in relation to New Homes Bonus funding.

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 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 In setting its Corporate Objectives, the council is seeking to address equality implications in the services it provides and through the remainder of the Corporate Business Planning Process will carry out Equalities Impact Assessments for those Efficiency or Investment options that are taken forward.

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 Paragraph 8.2 references the forecast impact of the NJC pay review, and there is more detail in section 2.6 of Appendix A. The ability of the Council to employ the people it needs to deliver services will be significantly impacted by not providing a competitive remuneration package.

15. APPENDICES

Appendix A – Medium Term Financial Strategy 2018-2023.

16. CONTACT OFFICERS

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