

### **DRAFT MEDIUM TERM FINANCIAL STRATEGY 2016 to 2020**

#### **1.0 Purpose**

1. Robust medium term financial planning is essential in the current economic environment. Ensuring the ongoing stability of budgets allows managers to plan over the longer term for their services and ensures that resources are deployed in the most effective way to achieve greater efficiency and to align their resources with the priorities of the Council. In this way viable, effective services can continue to be provided to local people.
2. The purpose of the Medium Term Financial Strategy (MTFS) is to set the financial framework for the Council for the medium term (over the next 4 years), to ensure delivery of the Council's strategic objectives and major projects. This requires review and assessment of their impact on revenue budgets, the capital programme, levels of reserves and potential future council tax levels, based on funding projections and other financial and economic assumptions.
3. The MTFS forms a key link between financial and business planning, both reflecting and influencing the key plans of the Council, including:
  - Corporate Plan,
  - Asset Management Plan,
  - ICT Strategy,
  - Treasury Management Strategy,
  - Carbon Management Plan and
  - People Strategy
  - Growth Strategy
4. This MTFS aims to re-align scarce resources on key priorities which have been developed following public consultation as the Council remains committed to consulting with its residents, businesses, stakeholders and partners.

#### **2.0 Local Context**

1. The MTFS underpins the Council's Corporate Plan, which was agreed by elected members at Policy Council in December 2015, and sets out for residents, staff and partners, the Council's top priorities for the next four years and how the Council will continue to improve services and prepare for the ongoing and difficult financial challenges ahead.
2. The Council's six priority objectives for residents are:
  - Creating more **jobs** and supporting business growth
  - Improving **housing** quality and building more houses
  - Improving **health and wellbeing**
  - Improving outcomes for our **young people** – education and skills
  - Safeguarding the most **vulnerable people**
  - **Making your money go further** – supporting households in difficult financial times through efficient and effective use of council tax

To support the delivery of these priority objectives the Council will be:

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- **Working together** with residents, businesses and partners - developing local solutions via local problem solving
- Managing the **impact** of national reforms on residents and the Council – particularly around the welfare system, health services and educational provision
- Delivering **high quality services** by being a well-managed authority which is fit for the future, efficient and effective and continuing to use the best possible business models to deliver excellent services

The continuing reductions in government funding will affect the Council and the services that it provides to the public. The Council is however, committed to mitigating wherever possible the impact on front line services.

As a unitary authority there are many competing priority areas across the service portfolios. The challenge in this financial climate to deliver the strategy over the medium term will largely depend on the continued success of reprioritisation of services and realignment of resources (both between and within portfolios), to meet key priorities and to deliver efficiencies within the financial restraints imposed by central government. This may mean further re-engineering of the way in which services are provided or indeed, who provides them.

### 3.0 Financial Context

1. Through successive Autumn Statements and Spending Reviews the Chancellor has indicated that there will be spending cuts across public services until the public finances are in surplus. Local government in England is now five and a half years into a period of public sector austerity, which will continue until at least 2019/20 as outlined in the Chancellor's Autumn Comprehensive Spending Review in 2015 and confirmed in the Local Government Finance Settlement of 9<sup>th</sup> February 2016.
2. This MTFS therefore has been prepared against the backdrop of a difficult economic climate which continues to impact upon businesses and citizens of the Borough, and which places pressure on Council services to respond. The Council's strategy, underpinned by the MTFS, is to help to support those in hardship whilst encouraging the growth of jobs and businesses.

### 4.0 MTFS – Key issues and assumptions

An updated, summary MTFS was presented to Council Forum on 3<sup>rd</sup> December 2015, based on assumptions and information available at that time but most significantly, prior to the receipt of the provisional Local Government Finance Settlement which was announced later on 17<sup>th</sup> December 2015. The Budget gap reported on 3<sup>rd</sup> December, and the resulting impact of the settlement, is as follows;

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	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
<b>MTFS Budget Deficit reported to Council Forum 3<sup>rd</sup> December 2015</b>	<b>24,800</b>	<b>29,900</b>	<b>35,300</b>	<b>38,800</b>
Increase in deficit due to decrease in Government Funding available following notification of settlement (i.e. further decrease over and above that already factored into MTFS assumptions at 3 <sup>rd</sup> Dec 2015)	1,800	5,000	6,300	9,000
<b>Projected MTFS Budget Deficit</b>	<b>26,600</b>	<b>34,900</b>	<b>41,600</b>	<b>47,800</b>

Faced with a forecast deficit rising to almost £48 million by 2019/20, options have been developed to close the budget gap and are recommended for approval in Section 2 of the main report.

Whilst some actions have already been agreed, such as the Year 2 and Year 3 savings within the 3 Year Savings Programme agreed by Council in September 2014, others to deliver a balanced budget in 2016/17 are detailed earlier in the report.

In preparing the MTFS for the financial years beyond 2016/17 through to 2019/20 however, various assumptions have been made, including the options proposed, and these are outlined below;

### 5.0 MTFS key issues and assumptions - Resources and Funding

The key figures and assumptions included within the MTFS in relation to Resources and Funding levels are as follows;

#### 5.1 Local Government Finance Settlement

Within the Local Government Finance Settlement issued on 9<sup>th</sup> February 2016, the government has provided an estimate of the settlement for the following 3 years – 2017/18, 2018/19 and 2019/20. Should a Council wish to accept and sign-up to the 4 year settlement, they have until 14<sup>th</sup> October 2016 to do so, by which time the monitoring arrangements for such an agreement will have been developed and be understood.

The indicative funding levels have been incorporated into the MTFS to produce a Summary of Resources for the 4 financial years 2016/17, 2017/18, 2018/19 and 2019/20 as follows;

<b>Resources</b>	<b>2016/17 £M</b>	<b>2017/18 £M</b>	<b>2018/19 £M</b>	<b>2019/20 £M</b>
Revenue Support Grant	28.9	22.3	17.8	13.3
Top Up	18.0	18.3	18.9	19.5
New Homes Bonus	1.8	1.8	1.1	1.1
Council Tax and Housing Benefit Admin Grant	0.9	0.9	0.9	0.9
Business Rates related grants	1.8	1.7	1.7	1.7
Education Services Grant (ESG)	1.7	1.7	1.7	1.7
Better Schools Fund PFI funding	8.5	8.5	8.5	8.5
<b>Total Government Resources</b>	<b>61.6</b>	<b>55.2</b>	<b>50.6</b>	<b>46.7</b>

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### 5.2 Council Tax

Despite maintaining Council Tax at its 2010/11 level for the past 5 years, given the withdrawal of Council Tax Freeze Grant, the Council is proposing to increase Council Tax in 2016/17 to assist in closing the budget gap. The proposed increases are;

- 1.99% in relation to general increases in the cost of Council services and
- 2.00% to meet the costs of Adult Social Care

The MTFs assumes that the same level of increases will be applied in each of the following 3 years.

### 5.3 Growth Agenda

As detailed in the main report, the Council is committed to contributing to the delivery of the Local Strategic Partnership's 'Plan for Prosperity 2014 - 2020' for the Borough which will deliver 3,250 additional homes over the period and an extra 100,000sqm of new commercial floor space. This will in turn generate additional revenue for the Council in terms of additional Council Tax and additional Business Rates income.

Within the budget for 2016/17 and the MTFs through to 2019/20, additional Council Tax and Business Rates income has been assumed as follows;

<b>Additional Revenue;</b>	<b>2016/17 £'000s</b>	<b>2017/18 £'000s</b>	<b>2018/19 £'000s</b>	<b>2019/20 £'000s</b>
Council Tax and New Homes Bonus	-	720	1,905	2,711
Business Rates	-	115	160	300
<b>TOTAL Growth Income</b>	<b>-</b>	<b>835</b>	<b>2,065</b>	<b>3,011</b>

### 5.4 Business Rates

In respect of Business Rates, although the government will undertake a review of the distribution or 'needs' formula in the lead up to the proposed introduction of 100% Business Rates Retention, the MTFs has assumed that apart from the impact of growth as noted above, the current arrangements will remain in place over the period of the MTFs.

### 5.5 Education Services Grant Funding (ESG), Dedicated Schools Grant (DSG) and Pupil Premium

In announcing the provisional settlement back in December, the Chancellor referred to the government's intention that all schools should attain academy status by the end of the current parliament. However, given that there is little information on this or on the timescale or phasing for schools within the Borough, this has not been reflected in the MTFs; it has been assumed that this funding will remain at the levels for 2016/17 for the remainder of the period.

### 5.6 Public Health

The MTFs assumes that any reduction in funding following the introduction of a new formula to redistribute funding across local authorities (currently out to consultation), will be offset by a corresponding decrease in expenditure. Therefore funding has

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been included in the MTFS for 2018/19 and 2019/20 at the rate confirmed for 2017/18.

### **6.0 MTFS key issues and assumptions - Expenditure**

#### **6.1 Pensions**

The triennial actuarial valuation of the Local Government Pension Scheme is due in 2016 and any adjustments to pension rates will be applied with effect from 1<sup>st</sup> April 2017. However, in the absence of any information on indicative rates, it has been assumed within the MTFS that pension contributions will remain at the current levels.

#### **6.2 Demand Pressures and Savings Options**

Demand pressures which will impact on the Council throughout the period of the MTFS are referred to in the main body of the report, together with savings plans and options which are also detailed in Appendix C. The MTFS assumes delivery of the third year of the 3 Year Savings Programme in 2017/18.

It is also assumed that apart from delivery of the proposed savings options, any increase in demand and other cost pressures arising will be contained within the available budget.

#### **6.3 Pay Awards**

Future pay awards are not certain; as such a 1% pay award has been built into the MTFS for each of the next 4 years.

The MTFS also reflects the introduction of the new Apprenticeship Levy to be introduced from April 2017.

#### **6.4 Price inflation**

Specific price inflation has been included in each year of the MTFS for items such as utilities, waste and agreed contract price inflation however for 'general consumables', price inflation, it has been assumed that this will be contained within or met from existing budgets and cash limits.

#### **6.5 Interest rates and borrowing**

The MTFS reflects both the forecast interest rates (both on borrowing and investment) as outlined in the report on Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision Policy 2016/17, and the extent and phasing of the Capital Programme in terms of both forecast expenditure and forecast capital receipts.

### **7.0 Four Year Financial Forecast - Summary**

In light of the financial challenges faced by the Council, this has been a very difficult budget setting exercise to complete as the government's austerity measures have been extended beyond the initial period indicated and will now continue through to 2019/20.

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Faced with a forecast deficit rising to almost £48 million by 2019/20, proposals and measures have been developed to address the budget gap over the period of the MTFS and can be summarised as follows;

	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000
<b>Total projected deficit following receipt of Local Government Finance Settlement (Feb 2016)</b>	<b>26,600</b>	<b>34,900</b>	<b>41,600</b>	<b>47,800</b>
<b>Updated projections to close the gap</b>				
MRP (capital repayment) Policy change approved at Council Forum 3 <sup>rd</sup> Dec 2015	(1,600)	(1,500)	(1,500)	(1,500)
Revised assumptions and updated cost/income information including pay and price inflation, interest rates, council tax and business rates in respect of growth agenda etc	(6,300)	(5,700)	(7,500)	(9,800)
Year 2 and 3 of Advanced Savings Programme agreed in September 2014 TBC	(6,700)	(10,200)	(10,200)	(10,200)
Commercial Strategy Savings (Increased fees & charges)	(500)	(1,000)	(1,500)	(2,000)
Workforce Review Savings	(3,000)	(9,000)	(13,000)	(13,000)
<b>Revised MTFS Budget Deficit subtotal</b>	<b>8,500</b>	<b>7,500</b>	<b>7,900</b>	<b>11,300</b>
<b>Options recommended to Finance Council to close the gap</b>				
Proposed Council Tax increase - assumed general increase of 1.99%	(800)	(1,700)	(2,600)	(3,500)
Proposed Council Tax increase re Adult Social Care functions - assumed 2% increase	(900)	(1,700)	(2,600)	(3,600)
2016/17 Additional Savings Programme	(3,600)	(3,600)	(3,600)	(3,600)
Use of Reserves – general and earmarked	(3,200)	(200)	-	-
<b>Proposed MTFS Budget Deficit Position</b>	<b>-</b>	<b>300</b>	<b>(900)</b>	<b>600</b>

Taking into consideration the assumptions and figures referred to above and in the main body of the report, together with the savings options both agreed and proposed, the MTFS for the period 2016/17 to 2019/20 is as follows;

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### MEDIUM TERM FINANCIAL FORECAST 2016/17 TO 2019/20

#### Summary

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	£ 000's	£ 000's	£ 000's	£ 000's
<b>Resources</b>				
Government (non-ringfenced) grants	61,638	55,183	50,605	46,623
Business rates retained locally	22,928	23,387	23,972	24,571
Council tax	44,080	45,833	47,656	49,551
Add collection fund surplus from 2015/16	359	0	0	0
Contribution from reserves	3,217	250	0	0
<b>Total resources</b>	<b>132,222</b>	<b>124,653</b>	<b>122,233</b>	<b>120,745</b>

<b>Net Expenditure</b>				
Portfolio cash limited budgets net of savings targets (3 year Savings Programme and those proposed in 2016/17 Budget paper)	106,774	96,374	91,934	91,434
Net income from support service recharges	(2,653)	(1,291)	(1,291)	(1,291)
Cost of capital investment	22,993	23,980	23,929	23,976
Central contingencies	4,631	5,729	6,556	7,049
Parish Precepts	182	182	182	182
Contribution to reserves	0	0	0	0
<b>Net expenditure</b>	<b>132,222</b>	<b>124,974</b>	<b>121,310</b>	<b>121,350</b>

<b>BUDGET SHORTFALL / (SURPLUS)</b>	<b>0</b>	<b>321</b>	<b>(923)</b>	<b>605</b>
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