

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – 11 JUNE 2013

Title of report	MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2014/15 TO 2017/18
Key Decision	a) Financial Yes b) Community Yes
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Purpose of report	The purpose of the report is to establish the financial strategy for the Authority for the next four years and to set out a high level timeline for the production of the 2014/15 Revenue Budget.
Reason for Decision	It is a requirement that Councils establish a medium term financial plan as well as setting a balanced budget.
Council Priorities	Value for Money
Implications:	
Financial/Staff	Financial issues are contained within the report.
Link to relevant CAT	Impacts over all Corporate Action Teams (CATS)
Risk Management	Failure to plan effectively for the medium term financial strategy would leave the Authority at a high level of risk.
Equalities Impact Assessment	No impact at this stage.
Human Rights	No impact at this stage.
Transformational Government	The strategy outlined responds to the requirement to deliver a more efficient authority within reduced resource levels.

Comments of Head of Paid Service	The report is satisfactory
Comments of Section 151 Officer	As report author the report is satisfactory
Comments of Monitoring Officer	The report is satisfactory
Consultees	Corporate Leadership Team
Background papers	None
Recommendations	THAT CABINET APPROVES THE MEDIUM TERM FINANCIAL STRATEGY AS OUTLINED IN THIS REPORT AND NOTES THE OUTLINE REVENUE BUDGET TIMELINE FOR THE 2014/15 BUDGET.

1. BACKGROUND

- 1.1 This review has been undertaken to update the MTFS and to highlight the financial issues facing the Council. Since the current MTFS was approved in September 2013 the Council has approved a balanced budget for 2013/14 and responded to the Government's reforms of local government funding including the Local Retention of Business Rates and the Localisation of Council Tax Support. The MTFS below has also been updated to reflect revised interest rates and inflation forecasts as well as estimated changes to government grants.
- 1.2 The review covers the General Fund only but reflects recharges to/from the Housing Revenue Account (HRA). The latter was subject to a separate business plan case approved in January 2012 reflecting the debt settlement due to the government in 2012 and the other major changes in the operation of the HRA effective from 1 April 2012.
- 1.3 Potential capital expenditure over the next four years will be covered by separate reports to Cabinet running in line with the Revenue Budget process for 2014/15. However, this MTFS assumes that there will no net material revenue impacts from that expenditure.

2. REVISED MEDIUM TERM FINANCIAL STRATEGY

- 2.1 The MTFS set out in Appendix 1 sets out the financial and operational challenges facing the Council over the next four years. It is the Council's aim to bridge the funding gap by the end of March 2018 and proposals will be put forward at future Cabinet meetings setting out how this will be achieved.
- 2.2 As can be seen from Appendix 1 by 2017/18 there is an estimated ongoing budget shortfall of £2.4m per year. Whilst there are General Fund revenue reserves of a little over £5m, at least £2m is already earmarked for specific purposes. The Council will also

need to retain a minimum level of £1m in reserves as agreed with the external auditor during the 2013/14 budget process. If the remaining £2m was used to fund the shortfall the reserves would be exhausted by 2017/18 and the ongoing funding gap of £2.4m would still exist. Therefore this is not a viable solution and the Council would risk being in breach of legislation requiring a balanced budget and adequate reserves. Instead the Council has kept its usable revenue reserves available in a VFM reserve to fund Invest to Save projects. Further information is provided in paragraph 2.7 below.

2.3 The 2014/15 – 2017/18 financial plans indicate that ongoing savings of £2.4m will be needed by 2017/18 profiled as follows:

2014/15	£500k
2015/16	£500k
2016/17	£600k
2017/18	£800k.

2.4 MTFS Assumptions

2.4.1 The main assumptions used in the MTFS are set out in Table 1 below:

Table 1

Summary of Assumptions	2014/15	2015/16	2016/17	2017/18
Council Tax - % increase	1.50%	1.50%	1.50%	1.50%
Inflation Rate Applied to Salaries - % increase	1.00%	1.00%	1.00%	1.00%
Central Government Grants (Reduction) %	-10%	-10%	-10%	-10%
Inflation Rate Applied to Non-Pay items	2.50%	2.50%	2.50%	2.50%
Interest Rates - average for NWL - internal and external investments	0.50%	0.50%	0.50%	0.50%
Increase in the Council's Pension contributions	1.00%	0.00%	0.00%	0.00%

2.4.2 It is the Section 151 Officer's view that in order to be prudent the Council needs to make ongoing savings of £2.4m by the end of March 2018. This is the target that will be used as the basis for each of the four years' budgets to 2017/18.

2.4.3 The approach taken to achieving the savings will be consideration of the following:

- Proposed new fees and charges
- No vacancy filling of non frontline services vacancies
- Seeking alternative methods of delivery for all services
- Seeking Town and Parish councils to adopt a service to deliver, thereby saving the Council money.

2.4.4 The Council will provide the best possible services within its resources which are considered to be the most important to the public which includes statutory and non-statutory services. These services will be assessed and compared to other providers with regard to outcomes, satisfaction levels for customers, level of performance and unit

costs. These high standards will also be required from support services which provide expertise and advice to the frontline services.

2.5 Government Grants

- 2.5.1 There continues to be uncertainty around the level of Central Government support prior to the Government's Spending Review later this month, consequently assumptions have been made in this report which will need to be reviewed as more details emerge. The initial assumption in this report is in line with figures for 2014/15 less 1% included in the announcement in the Chancellor's last budget and has assumed reductions of 10% in the future years. It is possible that the Government will make further reductions in the Spending Review, to be announced on 26 June 2013. Each 1% reduction in grant represents about £45k for us. The reductions are exacerbated from 2014/15 because the Local Council Tax Support grant will be rolled into the main grant so will reduce in line with it.
- 2.5.2 Income from business rates is included in Central Government Funding. Under the new arrangements the District shares gains and/or losses at a rate of 40%. There is however a 50% levy on any net increase so at best only 20% of additional rates would be retained by the District. As the Council is participating in county-wide pooling arrangements the 50% levy would go to the local pool rather than Central Government. As part of the pooling arrangements the Council also benefits from a safety net and business rate losses would be limited to £157,500 a year. In extreme cases the pool might have to be dissolved if it became unable to fund safety net payments to several participating councils. The MTFS currently assumes no losses or gains on business rates. The Council's aim will be to increase its business rates base and increase the amount of business rates retained locally to assist in bridging the projected budget shortfalls.
- 2.5.3 Our New Homes Bonus projections currently assume increases of £200k in 2014/15 and 2015/16 when it will reach £1.3m. The MTFS projections assume that this will stop increasing in 2016/17. This is a prudent assumption rather than the Government's stated intention. Reductions are more likely beyond 2016/17 as the considerable financial pressures of the scheme are likely to force the Government to review the mechanism. Each new home brings the District approximately £1000 in New Homes Bonus representing 80% of a national average Band D Council Tax Charge. The County Council benefits from 20%.
- 2.5.4 The MTFS assumes that the New Homes Bonus (NHB) is retained for general use. However, this can be used for specific capital or revenue items but each pound used for those purposes would increase the shortfall by a similar amount. It should be borne in mind that the NHB has effectively been funded from the scrapping of the Housing & Planning Delivery grant and further cuts in the Formula Grant, so it is not really 'new money' as such.

2.6 Council Tax

- 2.6.1 Council Tax increases of 1.5% each year have been assumed in the financial plans from 2014/15. Prior to the introduction of the Local Council Tax Support Scheme each 1% increase would have generated around £57k income ongoing.
- 2.6.2 Unlike the former Council Tax Benefit Subsidy the Council Tax Support grant does not increase when the Council Tax increases so the Council has to meet the cost. A 1%

increase in Council Tax will now only net the Council around £45,000. (i.e. £67,600 for a 1.5% increase). The Council may wish to take the opportunity to review its scheme as from 2014/15 the transitional funding of £20k for LCTSS will also be lost and as the support grant is rolled into Formula Grant it will reduce. Changing the maximum eligibility from 91.5% to 85% would save the District about £31k a year but clearly there would be an impact on people being supported and their ability to pay their additional Council Tax.

2.6.3 The MTFS now assumes an increase in collection rates from 98% to 98.5% in 2015/16. This would generate around £24k extra a year once achieved.

2.7 Value For Money Reserve

The 2013/14 Budget Report published in February 2013 advised Cabinet how indicatively the £2m available reserves would be used. The Cabinet is now recommended to make broad allocations from the reserve as follows:

- £750,000 “Planning for the Future” reserve – this will be a reserve available to support the evolving “Planning for the Future” programme which will be outlined in a future Cabinet report.
- £1m for expenditure on investment needs/priorities for invest to save projects within services.
- £250,000 for the Improving Customer Experience Project – improving the accessibility to services for customers e.g. increasing transactional opportunities on the Council’s website. This is in addition to £70,000 already in the capital programme.

3. **OUTLINE BUDGET TIMETABLE 2014/15**

3.1 The table below sets out the outline budget timetable for 2014/15:

Action	Month
MTFS agreed by Cabinet	11 June 2013
Savings Proposals for 2014/15 agreed by Cabinet for consultation	24 September 2013
Consultation undertaken	October 2013/November 2013
Consultation responses reported and savings for 2014/15 recommended for final consultation	10 December 2013
Cabinet makes final budget recommendations to Council	11 February 2014
Council agrees 2014/15 Budget	28 February 2014

