

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – 23 SEPTEMBER 2014

Title of report	MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2015/16 TO 2018/19
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 2015/16 General Fund Revenue Budget.
Reason for Decision	Requirement of the budget setting process.
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	Preparation of a Medium Term Financial Strategy reduces the risk of adverse impact on the provision of services in a climate of reducing resources.
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 reducing and changing resource levels.

Comments of Head of Paid Service	Report is satisfactory
Comments of Section 151 Officer	As report author the report is satisfactory
Comments of Monitoring Officer	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 TIMETABLE FOR THE 2015/16 BUDGET PROCESS.

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 June 2013 the Council has approved a balanced budget for 2014/15 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. The HRA Business Plan is currently being updated and will be presented to members for approval later this year. The revised Plan will take account of the increased number of council homes being made decent and the increased costs of completing the Decent Homes Investment Programme by March 2015.
- 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 2015/16. 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 illustrates the financial and operational challenges facing the Council over the next four years. It is the Council's aim to approve balanced budgets and bridge the funding gap by the end of March 2019. Proposals will be put forward at future Cabinet meetings setting out how this will be achieved.

2.2 As can be seen from Appendix A by 2018/19 there is an estimated ongoing budget shortfall of £1.4m per year. This can clearly change as there are many elements of the budget which are fluid e.g. National and local policy changes and more reliance on local income (business rates, service income and fees and charges).

2.3 The 2015/16 – 2018/19 financial plans indicate that ongoing savings will be needed profiled as follows:

2015/16	£365k
2016/17	£343k
2017/18	£366k
2018/19	£351k

As part of continuing sound financial management over the last few years, the savings target will be met through a variety of strategies including additional income generation, continuing efficiencies and better use of our asset portfolio.

2.4 The budget shortfalls currently projected will be manageable and is a reflection of the Council's forward thinking in making year on year efficiencies without impacting on front line service delivery. The projected shortfalls could change significantly even in the short term particularly if there are changes to Central Government funding. The projections also do not take into account the impact of budgetary decisions which other partner organisations might take beyond 2015/16.

2.5 In preparing the MTFS the risk of losing income from the County Council currently paid as credits for recycled materials has been identified. The County is proposing to cease paying credits on Green Waste and not pay the annual increase for inflation from 2015/16 on all recycled materials. The Council received £269k from the County Council in Green Waste recycling credits for 2013/14 and next year's inflation uplift is worth a further £11k. As part of its 2014/15 budget proposals the County Council also provided some indication of other budget reductions from 2015/16 which could impact on the District Council. Whilst these pressures have not been built into our budget projections it is recommended that £300k is set aside as a contingency for this from 2015/16. The total income received from the County Council in recycling credits is around £536k a year and the remaining income could be withdrawn in future years. This has not at this stage been factored into the MTFS.

2.6 MTFS Assumptions

2.6.1 The main assumptions used in the MTFS are set out in Table 1.

Table 1

Summary of Assumptions	2015/16	2016/17	2017/18	2018/19
Council Tax - % increase	0%	0%	0%	0%
Inflation Rate Applied to Salaries - % increase	1.00%	1.00%	1.00%	1.00%
Revenue Support Grant (Reduction)	Provisional	-10%	-10%	-10%
Inflation Rate Applied to Non-Pay items	1.50%	1.50%	1.50%	1.50%
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%	1.00%	1.00%	0.00%

2.7 Government Grants

- 2.7.1 Central Government has provided provisional grant information for 2015/16 but projecting levels of funding beyond next year is complicated by the General Election in May 2015. The assumptions made in this report are already subject to annual review and we would respond to any unforeseen changes which are announced. The initial assumption in this report is that from 2016/17 onwards Revenue Support Grant will reduce by 10% each year.
- 2.7.2 Income from business rates is also effectively Central Government funding with the potential to retain a proportion of any increases from growth in the tax base. Under new arrangements which started in 2013/14 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 no longer participating in county-wide pooling arrangements the 50% levy would go to Central Government rather than the countywide Pool. The Council will however have the security of the national safety net arrangements rather than the risk of depending on resources in a local pool to pay any safety net payments required. 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. Unfortunately whilst the business rates base can increase it can also reduce because of a variety of reasons including reductions following appeals, statutory relief payments and provisions for future losses.
- 2.7.3 Our New Homes Bonus (NHB) projections assume increases of £0.5m in 2015/16 when it will reach £1.9m and £0.2m in 2016/17 taking it to £2.1m. From 2017/18 the NHB which was paid from the first year of the scheme will drop out and we are likely to see a levelling off in this income under the current rules and assuming similar levels of housing growth. However more general reductions are always possible and beyond 2016/17 the considerable financial pressures of the scheme are quite 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%.
- 2.7.4 The MTFs assumes that the New Homes Bonus (NHB) is retained for general use. Alternative uses would include specific capital or revenue items but each pound used for those purposes would increase the General Fund Budget shortfall by a similar amount.

2.8 Council Tax

- 2.8.1 Council Tax freezes each year have been assumed in the financial plans. Growth in the Council Tax base of 1% has been assumed although in reality this is subject to considerable variation each year depending how many new properties have been listed for Council Tax in the previous year.

2.9 Revenue Reserves

- 2.9.1 The 2013/14 Provisional Outturn Report approved by Cabinet on 29 July 2014 set out how the underspending from arising from additional income and further efficiencies would be utilised. This left a balance of around £1.1m before any potential surpluses in 2014/15. This is in line with maintaining a minimum balance of £1m which the Council's Section 151 Officer and the Council's external auditors are satisfied with.
- 2.9.2 As part of the same report the Cabinet approved further allocations from the Value For Money Reserve. It is projected that around £750k will remain unallocated and available in this reserve for other projects.

2.10 Future Risks

The MTFS has been compiled with less than a year before the next General Election. Whilst it is generally accepted that future governments will need to continue to reduce public expenditure and Local Government funding will continue to fall, it is unclear what the impact on individual authorities will be. The current emphasis on New Homes Bonus and Business Rate Retention provides opportunities for district councils such as ours to increase revenue whilst Revenue Support Grant is reduced. There is the risk that a future government could change this emphasis and that this Council could be disadvantaged by revised resource allocation policies. Savings projections beyond 2015/16 can only be tentative at this time and we need to be prepared for more challenging savings targets in response to higher than assumed reductions in grant.

3. **OUTLINE BUDGET TIMETABLE 2015/16**

- 3.1 The table below sets out the outline budget timetable for 2015/16:

Action	Dates
MTFS agreed by Cabinet	23 September 2014
Cabinet's draft budget proposals agreed	18 November 2014
Consultation undertaken	1 December 2014 to 16 January 2015
Policy Development Group consideration	7 January 2015
Cabinet makes final budget recommendations to Council	10 February 2015
Council agrees 2015/16 Budget	24 February 2015

- 3.2 The report to Cabinet in November will set out the draft budget proposals for closing the projected budget shortfall in 2015/16.