

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – 22 SEPTEMBER 2015

Title of report	MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2016/17 TO 2019/20
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 2016/17 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	<p>THAT CABINET:</p> <p>1 APPROVES THE MEDIUM TERM FINANCIAL STRATEGY AS OUTLINED IN THIS REPORT AND NOTES THE OUTLINE TIMETABLE FOR THE 2016/17 BUDGET PROCESS.</p> <p>2 APPROVES THE TRANSFER OF £600K TO A SPECIAL PROJECTS RESERVE TO BE FUNDED FROM THE 2014/15 REVENUE BUDGET UNDERSPENDING.</p>

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 2014 the Council has approved a balanced budget for 2015/16 and received the Provisional Financial Outturn for 2014/15. 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. Since then the Government has made changes to the rent setting framework for the HRA and there were significant proposals in the Summer Budget which if fully implemented will reduce the level of resource available to the HRA considerably. Further reports outlining the impact of this will be brought to Cabinet during the budget process.
- 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 2016/17. 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 2020. 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 2019/20 there is an estimated ongoing budget shortfall of £2.157m 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 2016/17 – 2019/20 financial plans indicate that ongoing savings will be needed profiled as follows:

2016/17	£260k
2017/18	£552k
2018/19	£561k
2019/20	£784k

As part of continuing sound financial management over the last 10 years, the savings targets 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 will be kept under review during the budget process. Government announcements on New Homes Bonus and Revenue Support Grant are expected in late November or early December. 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 2016/17.
- 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 ceased to pay credits on Green Waste and, not pay the annual increase for inflation from 2015/16 on all recycled materials. The MTFs includes a contingency of £300k for 2016/17 for further losses of income or increases in expenditure but there is no provision for anything above this or for further changes from 2017/18.
- 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	2016/17	2017/18	2018/19	2019/20
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)	-25.0%	-33.0%	-50.0%	-100%
Inflation Rate Applied to Non-Pay items	1.00%	1.50%	1.50%	1.50%
Interest Rates - average for NWL - internal and external investments	1.00%	1.00%	1.00%	1.00%
Increase in the Council's Pension contributions	1.00%	0%	0%	0%

2.7 Government Grants

- 2.7.1 Central Government is not expected to provide provisional grant information for 2016/17 until December and projecting levels of funding accurately is not possible using the high level Planning Total in the Government's Summer Budget. As an unprotected department, Local Government is vulnerable and is expected to take a higher proportion of the overall reductions required. Our previous MTFs assumed reductions in Revenue Support Grant of £0.7m by 2019/20 taking it down to around £1m. Given that the Government has signalled to local authorities that they need to become locally funded it is likely that Revenue Support Grant will be phased out over the next four years and this is being assumed in our revised MTFs. Whilst this may be viewed as pessimistic this does need to be seen in the context of increases in the amount raised through locally retained Business Rates making up for at least part of the reduction in funding.
- 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 participating in county-wide pooling arrangements the 50% levy that would normally go to Central Government will instead benefit the countywide Pool. The Council does not however have the security of the national safety net arrangements and risks depending on resources in a local pool to pay any safety net payments required. 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 £0.3m in 2016/17 when it will reach £2.4m. 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 1.6% based on the trend over the last three financial years 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. The Government has not provided confirmation that Council Tax Freeze grants will continue after the current year. The MTFS presented currently assumes that they will be paid for one year, rather than ongoing, but this will need to be kept under review.

2.9 Revenue Reserves

- 2.9.1 The 2014/15 Provisional Outturn Report approved by Cabinet on 21 July 2015 explained that there was a £1.6m underspending arising from additional income and further efficiencies. In February when the 2015/16 Budget was set an underspending of £1m had been projected taking reserves to a comfortable level of £2.4m. Since there was an increase of £0.6m in the underspending these resources can be considered to be available to be allocated to one-off projects. It is recommended therefore that £600k is transferred to a Special Projects Reserve.

2.10 Future Risks

The MTFS has been compiled without knowledge of the detail of the Government's Autumn Spending Review. Whilst it is generally accepted that the Government will need to continue to reduce public expenditure and Local Government funding will continue to fall, in order to deliver balanced budgets in-year by the end of this parliament, 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 the Government could change this emphasis and that this Council could be disadvantaged by revised resource allocation policies. Savings projections beyond 2016/17 can only be tentative at this time and we need to be prepared by setting challenging savings targets in response to assumed reductions in grant.

3. VALUE FOR MONEY

- 3.1 Securing the best Value For Money for the Council Tax payer is a key objective of the MTFS and has been a major factor in managing the reducing resources available particularly since 2010.
- 3.2 We employ a variety of measures to promote and deliver value for money. These include:

- The identification of service improvement and efficiency savings through the budget process.
- The Planning For the Future mechanism for instigating service reviews as required to make savings.
- Base Budget Reviews in conjunction with Service Managers
- Effective corporate procurement mechanisms. A review of our Procurement Strategy is included on the Cabinet's Forward Plan.
- Performance management. We report to Cabinet quarterly, the report on Quarter 1 is included on this cabinet agenda.
- An efficient organisational structure which is kept under review to ensure it meets the needs of the organisation.
- Scrutiny by the Policy Development Group.
- Internal audit.
- Capturing efficiency gains in-year and meeting savings targets in advance.

4. OUTLINE BUDGET TIMETABLE 2016/17

4.1 The table below sets out the outline budget timetable for 2016/17:

Action	Dates
MTFS agreed by Cabinet	22 September 2015
Cabinet's draft budget proposals agreed	8 December 2015
Consultation undertaken	8 December 2015 to 19 January 2016
Policy Development Group consideration	6 January 2016
Cabinet makes final budget recommendations to Council	9 February 2016
Council agrees 2016/17 Budget	23 February 2016

4.2 The report to Cabinet on 8 December will set out the draft budget proposals for closing the projected budget shortfall in 2016/17.