CABINET
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HEAD OF FINANCIAL SERVICES
REPORT NO. FIN1619

MEDIUM TERM FINANCIAL STRATEGY 2016/17 – 2019/20

1 INTRODUCTION

1.1 The Financial Strategy sets out a framework to deliver a stable and sustainable financial position to enable the Council to achieve its strategic objectives.

1.2 It is a fluid strategy, adapting to local and national conditions, which aims to take account of the risks to the Council's financial position and to mitigate against such risk, in order to protect the financial health of the Council.

1.3 The Financial Strategy covers both Revenue and Capital activities and sets the framework for the production of the Medium Term Financial Forecast and Annual Budget.

1.4 As we now move into the next budget-setting cycle, it is appropriate to review and update the strategy in response to internal and external factors such as changing corporate priorities, the prevailing economic conditions, government policy and changes to funding mechanisms.

1.5 The strategy should support the Council's key priorities and ensure that the annual budget is shaped around these objectives and the principles behind them - listening to our residents, learning and delivering better.

1.6 In particular, some consideration needs to be given to the four-year settlement offer made alongside the 2016/17 Local Government Finance Settlement, the emerging work around the move to 100% Business Rates retention and the technical consultation on the 2017/18 Local Government Finance Settlement that was published on the 15th September 2016.

2 STRATEGY REVIEW

2.1 The key risks and considerations for future budget planning are set out below:

2.1.1 <u>Central Government Funding – general comments</u>
In recent years, local government has weathered significant cuts in funding coupled with additional risk and responsibility. For example, both Business Rates Retention and Localised Council Tax Support Schemes have passed additional risk to local authorities balanced by some increased flexibility particularly around the level of reliefs, discounts or exemptions awarded.

In addition, a number of grants have been subsumed into the general Revenue Support Grant and the majority of grants are provided without being ring-fenced for specific uses, allowing greater flexibility at a local level.

Revenue Support grant itself has been falling dramatically and will be phased out over the medium-term.

2.1.2 Business Rates Retention Scheme

The current Rates Retention Scheme has introduced major fluctuations in income levels for Rushmoor due to the complexity of the scheme, the significant sums involved, the perverse accounting mechanisms and the requirement to make a provision against successful appeals. This will be further complicated by the current national revaluation of business rates and the expected resets to the system baselines.

Last October, the Chancellor announced plans for a 100% Business Rates Retention Scheme with local government retaining all business rates rather than the current system whereby 50% of the rates collected locally are pooled centrally and redistributed back to local authorities.

Key points of the new system, to be introduced by the end of this Parliament, are:

- Local authorities will keep rates growth, i.e. there will be no levy on growth payable to central government.
- Councils will be given new responsibilities to ensure reforms are 'fiscally neutral' and Revenue Support Grant (RSG) will be phased out.
- All councils will be able to reduce the multiplier. Combined Authority mayors will be able to increase the multiplier with Local Enterprise Partnership agreement, to fund new infrastructure.
- A full review of the needs assessment methodology will take place.

DCLG and the LGA have set up steering groups and technical working groups to develop the new system covering overall direction and the following four work streams:

- Service responsibilities
- System design
- Needs and distribution
- Accounting and accountability

In order to achieve a fiscally neutral position for central government, around £12.5bn of additional responsibilities will need to be transferred to the local government sector, via a combination of removing other grants currently being received and by taking on new duties.

This devolution of responsibilities should build on the strengths of local government, while striving to support the drive for economic growth and improved outcomes for local residents and service users. In addition, it will be important that fiscal neutrality is measured over the medium-term so as to avoid costs being transferred in year 1 of the system without due regard to demand or inflationary pressures which would put additional pressures on local government budgets in the future. This transfer of responsibility has the potential to bring opportunities to local government to provide improved services and better local outcomes.
The system design needs to be simple to understand and operate, although

complexity will no doubt emerge due to the need to retain a method of redistribution between authorities and to allow for revaluations and resets of the system. A key issue for the design will be how to balance the incentives of the scheme (i.e. retention of local growth) and the redistributive aims of the system. Some form of safety net is likely to remain in the system and some consideration of how to avoid a 'race to the bottom' should neighbouring authorities use their flexibilities to reduce the multiplier for their area.

It has been 10 years since the current formula for redistribution was reviewed and the new scheme aims to deliver a fundamental fair funding review of the way relative needs are assessed. But how does this reconcile with a system that is simple to understand and operate? Does 'simple versus complex' actually mean 'simple versus fair', as a redistributive system based on just a handful of indicators is likely to leave some authorities disadvantaged.

The requirement for a balanced budget will remain the key principle behind local authority budget setting and any changes to the accounting requirements for the new system must not negatively impact the budget calculation.

2.1.3 New Homes Bonus

We are still awaiting the results of the consultation on changes to New Homes Bonus (NHB), which closed in March 2016. The financial forecast contained in this report includes the NHB allocations that were shown within the core spending power tables released as part of the last financial settlement. These take into account a proposed reduction of £800m from the total cost of NHB in order to free up resources to be recycled within local government to support authorities with particular pressures such as adult social care. However, these figures could be significantly different depending on the final outcome of the consultation, the phasing or transition arrangements applied and the various sharpening of incentives such as not being awarded NHB on homes where planning permission is awarded under appeal or not having a Local Plan in place.

2.1.4 The multi-year settlement offer

On 10th March 2016, the Secretary of State for Communities and Local Government wrote to every local authority in England setting out the conditions for the offer of a multi-year settlement. This made clear that the offer and the production of an efficiency plan should be as simple and straightforward as possible. It is important that plans cover the full four-year period and are open and transparent about the benefits they will bring and show how greater certainty can create the necessary conditions for further savings.

The offer includes:

- Revenue Support Grant
- Business rates tariff and top up payments, which will not change for reasons relating to the relative needs of local authorities
- Rural Services Delivery Grant and
- Transition Grant.

Plans should be locally owned and driven and as such DCLG have not provided guidance or set out what they should contain but have indicated that Councils should consider sector-led advice produced by the Local Government Association and CIPFA on what efficiency plans could include

Councils have until 14 October 2016 to accept the offer by sending an email or letter to MultiYearSettlements@communities.gsi.gov.uk with a link to their published efficiency plan. After the deadline for receipt, DCLG will respond to Councils on the 4-year offer as soon as practicable.

The Government expect the take up for this offer to be high as it provides a level of certainty for Councils regarding their financial position for the rest of this Parliament. Barring exceptional circumstances, and subject to the normal statutory consultation process for the local government finance settlement, the Government intends to confirm the constituent elements of the multi-year offer for the remaining years of the Parliament for qualifying Councils soon after 14 October. These amounts, together with any additional grants, which might be part of the offer, would then be published as part of the 2017/18 provisional local government finance settlement in due course.

However, Councils that choose not to accept the offer will be subject to the existing annual process for determining the level of central funding that they will receive and the uncertainty that this will bring.

It is recommended that the Council accept the multi year settlement offer and that an efficiency plan is drawn up reflecting the Council's plans for financial sustainability as set out in this report.

2.1.5 <u>The 2017/18 Local Government Finance Settlement – Technical Consultation paper</u>

On the 15th September 2016, DCLG published a technical consultation paper on the 2107/18 Local Government Finance Settlement, which outlines proposals to build on the four-year offer previously announced. The proposals are intended to "give Councils who are committed to reform, long-term certainty, earlier in the year, over more sources of funding".

It outlines

- the Government's commitment to the multi-year settlement offer and seeks views on expanding this offer
- the proposed approach to distributing the Improved Better Care Fund
- proposal for the 2017/18 council tax referendum principles (for Shire Districts less than 2% or up to £5 whichever is higher)
- the approach to business rates tariffs and top-ups to cancel out the impact of business rates revaluation on local authority income
- methodology for calculating the tariffs and top ups for the pilot authorities for the 100% business rates scheme so that these do not adversely impact on elsewhere
- mechanisms to allow places with a devolution deal to revisit the distribution of existing funding streams within their area, if all affected Councils agree.

2.1.6 Council Tax

Council Tax currently forms around 8% of our total income.

If Council's increase their Council Tax by, or above, a certain pre-announced percentage (2016/17 2%) then they have to arrange a referendum for taxpayers to approve the increase. This, alongside the availability of Council Tax Freeze Grants, has contributed to keeping Council Tax levels relatively stable in recent years, with little growth, other than through growth of the tax base itself.

National average Band D Council Tax percentage change 2005/06 – 2016/17

Year	£	% change
2005/06	1,214	4.1
2006/07	1,268	4.5
2007/08	1,321	4.2
2008/09	1,373	3.9
2009/10	1,414	3.0
2010/11	1,439	1.8
2011/12	1,439	0.0
2012/13	1,444	0.3
2013/14	1,456	0.8
2014/15	1,468	0.9
2015/16	1,484	1.1
2016/17	1,530	3.1

Source: BR and CTR forms; DCLG

At Rushmoor, our share of the Band D Council Tax remained at £184.07 from 2010/11 to 2015/16. However, the 2016/17 financial settlement included an assumption that all local authorities would raise their Council Tax within the restrictions of the referendum limits, thus building in this increase to the funding calculations. In addition, those authorities with social care responsibility were given the flexibility to raise their Council Tax by an additional 2% without triggering a referendum. This is reflected in the increase shown in the table for 2016/17.

Rushmoor raised its Council Tax by 1.99% in 2016/17. As can be seen from the consultation ahead of the 2017/18 Settlement, Shire Districts like Rushmoor will have the ability to raise their Council Tax by up to 2% or £5, whichever is greater. The forecast contained in the report includes an increase of 1.99% for Rushmoor, for illustrative purposes. However, the Council could choose to raise by a maximum of £5, which would be a 2.66% increase above the 2016/17 level.

2.1.7 Transformational change

As we have seen in the multi-year settlement, spending cuts will continue throughout the life of this parliament as measures are taken to tackle the national budget deficit (although the current government is no longer committed to removing the deficit in total by the end of the Parliament). Local government has done well to absorb the cuts to date but the on-going pressures of reduced funding mean that transformational change is now required to deliver the level of savings necessary to put the Council in a stable position for the future. A key part of this transformational change will be to reduce our reliance on sources of funding that are uncertain and outside of our control. The Council must deliver efficiencies over the medium-term alongside developing new (and maximising existing) income streams, while having due regard to affordability by its residents and customers.

2.1.8 Interest Rates

At its meeting on 15th September 2016, the Monetary Policy Committee voted unanimously to maintain Bank Rate at 0.25%. The Council's Treasury Management Advisors forecast the base rate to remain unchanged until September 2019, with no pressure on upward movement before March 2018 and then only limited. The potential for a decrease in rates comes earlier (even as soon as December 2016) and this down-side risk continues throughout the period of the medium-term forecast with the potential to move to negative interest rates around March 2018.

Continued low interest rates have a direct effect on the Council's resources by reducing the potential returns on our investments. The current Treasury Management Strategy seeks to address this by maximising available returns with longer-term funds and the use of a diverse portfolio, while putting the security of taxpayer's money at the heart of the policy.

The Council has extensive capital expenditure plans over the medium-term, to deliver Council priorities for regeneration of its town centres, for example; as well as significant invest-to-save projects and investment in property. Interest rates will play a significant part in determining when and how much the Council borrows to support these plans, as our internal capital resources continue to diminish over time.

The Council undertook its first major borrowing on 14th September 2016, borrowing £6m until 1st December 2016 from another Local Authority at 0.25%. This is short-term borrowing to cover cash flow requirements rather than longer-term borrowing due to diminished resources.

2.1.9 Level of Reserves

The Council maintains a level of usable reserves to support fluctuations in its revenue position from variations in income and expenditure; while invest-to-save projects deliver longer-term net cost reductions. Key reserves are the Service Improvement Fund, which supports the delivery of invest-to-save schemes, and the Sustainability and Resilience Reserve, which is used to manage short-term fluctuations in net revenue. In addition, in April 2016 Council approved a strategy for the flexible use of capital receipts, setting aside £500,000 of capital receipts to meet costs incurred in order to generate ongoing revenue savings in the delivery of services and/or transform service delivery in a way that reduces costs or demand for services.

The Council needs to consider the level of reserves set aside to support the financial position particularly given the fast pace of change of local government funding, the exposure to risk of fluctuations in business rate income and our reliance on funding streams such as NHB, which could be reduced at short notice. The Council needs to ensure that it has sufficient levels of reserves to cope with such short-term risk whilst it builds up other sources of income and reduces its expenditure.

2.1.10 Devolution

At a National level the Government remains committed to devolution and continues to encourage authorities to come forward with proposals for devolution deals which support government's policy of devolving the powers and budgets of public bodies to local authorities and combined authorities. It is not clear how this policy will develop post Brexit, but there seems to be less urgency around deal negotiation and some deals that were at the front are now unlikely to proceed to implementation in 2017/18 as envisaged.

The Hampshire and Isle of Wight devolution deal, proposed last year which encompassed Hampshire County Council, Southampton and Portsmouth City Councils, the Isle of Wight Council and the 11 Hampshire District or Borough Councils, was derailed following the insistence at that time of the government that the deal should include a directly elected mayor. As a consequence, some authorities in the south of Hampshire developed a separate proposal for a Solent Combined Authority, which is currently being consulted on with residents from Portsmouth, Southampton and the Isle of Wight, with a view to southern districts being engaged in future.

In response to this, a proposal for a combined authority for the remainder of Hampshire has been developed. Known as Heart of Hampshire, the proposal is for a combined authority which would include Rushmoor alongside Winchester, Basingstoke and Deane, Hart, Test Valley and the New Forest. Work commissioned jointly by these authorities is underway to establish the service and financial benefits of this model compared with other approaches to the future delivery of public services in Hampshire.

Hampshire County Council is also undertaking consultation on a range of future models of local government for Hampshire including combined authority and unitary options.

The outcomes of these pieces of work will be available in the autumn and it is unlikely that any of these proposals will result in change over the next financial year. However, as local devolution of business rates necessitates a locally determined method of redistribution within the Combined Authority this does result in a significant level of uncertainty over the medium term particularly when linked to other uncertainties mentioned in this report around the national review of business rates.

2.1.11 Other

Other key risks include:

- Fluctuations in the value of investment funds and investment properties following the UK's decision to leave the European Union
- Loss of income and chargeable services,
- Increased demand for services,
- Consequences from the challenges facing the Eurozone and other

wider economic disruption, and

- Welfare Reform, with potential loss of benefits for some parts of the community leading to greater demand for support via Council services.

2.1.12 Sustainability

With these key risks in mind, the Council must continue to strive towards sustainability by looking at our priorities, reviewing what we do and how we do it. This will form the underlying basis of the Financial Strategy, ensuring that this delivers the Council's corporate objectives within a balanced budget in the short-term and within a sustainable financial framework over the medium to longer term.

The Financial Strategy sets the context for the Council's 8-Point Plan, which is the delivery mechanism for financial sustainability, and the tool by which delivery of the various elements can be measured and managed.

3 MEDIUM TERM FINANCIAL FORECAST

3.1 For the Financial Strategy to be relevant to current decision-making, it needs to be considered in light of a revised Medium Term Financial Forecast (MTFF). In such a fast-moving environment, amid high-level announcements about the future of business rates, amid ongoing negotiations for a local devolution deal, and ahead of the Autumn Statement (November 25th) and the subsequent Local Government Financial Settlement, the forecast can only be a high-level indicator of the direction of travel for the Council's finances over the medium-term.

3.2 The forecast needs to be robust enough to set strategic financial direction without being a detailed budget plan for future years. It takes into account known budgetary pressures, for both Revenue and Capital expenditure, alongside estimates of future funding.

3.3 While estimates have been built for various scenarios, no assumptions have been included for potential devolution as it is too early in the process to determine the impact on funding for Rushmoor.

3.4 Revenue Forecast

3.4.1 The Medium Term Financial Forecast for revenue expenditure includes the day-to-day running costs of our services, any associated income, any corporate expenditure and income (such as interest receivable from investments or the costs of borrowing) and various funding streams such as grants, business rates and council tax.

3.4.2 The starting point for the forecast at Table 1 is the 1st quarter budget monitoring position for 2016/17 as reported to Cabinet 23rd August 2016. After deducting any significant one-off expenditure for the current year, the forecast takes into account major changes forecast for the period up to 2019/20.

Revenue Forecast 2016/17 - 2019/20	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Net Revenue Budget	12,951	12,951	12,985	13,550
Cost Pressures:				
Base adjustments (one-off items for 2016/17)		(393)		
Pay award/Increments		205	205	205
Inflation/contract growth		60	67	60
Pensions		50	55	60
Variations in Service		50	50	50
Change in contributions to capital outlay		(250)	-	-
Reduction in interest receipts		165	48	-
Interest cost		17	10	23
Minimum Revenue Provision		130	130	130
Total Cost Pressures		34	565	528
Transfers to/(from) Reserves:				
Stability & Resilience Reserve	(800)	(500)		
General Fund balance	(85)	(415)		
Total Transfers to Usable Reserves	(885)	(915)	0	0
Adjusted Net Revenue Budget	12,066	12,070	13,550	14,078
<u>Funding:</u>				
Other grants	(94)	-	-	-
New Homes Bonus	(1,994)	(2,010)	(1,263)	(1,212)
Revenue Support Grant	(1,104)	(536)	(190)	-
RBC share of rates collected	(19,018)	(19,109)	(19,682)	(20,272)
Tariff payable	15,305	15,606	16,066	16,580
Tariff adjustment				20
Levy /(Safety net)	762	777	801	825
s31 Business Rates grants	(314)	(320)	(330)	(340)
Council Tax	(5,664)	(5,835)	(6,010)	(6,191)
Collection Fund (surplus)/deficit - CTax	(91)	(75)	(75)	(75)
- NNDR	361	669	-	-
Total Funding	(11,851)	(10,833)	(10,683)	(10,665)
Annual Funding Gap	215	1,022	1,630	546
Cumulative Funding Gap	215	1,237	2,867	3,413

Revenue Balances	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
General Fund Balance	1,915	1,500	1,500	1,500
Stability & Resilience Reserve	3,008	2,508	2,508	2,508
Service Improvement Fund	347	247	147	-
Estimated Balances at 31 March	5,270	4,255	4,155	4,008

3.4.3 The following assumptions have been made in the forecast:

- Pay awards of 1% p/a plus incremental progression within grades
- An element of contractual inflation and growth in contract costs due to development in the Borough
- Increased pension liability,
- An allowance for one-off and on-going variations in service,
- A £250k reduction in revenue contributions to capital expenditure
- A reduction in interest receipts due to low interest rates and falling level of investments due to utilisation of capital resources
- Interest costs as the Council moves to borrowing and the associated Minimum Revenue Provision
- Drawdown of £500k from the Stability & Resilience Reserve in 2016/17
- General Fund balances held at the mid-point of the approved range from 2017/18 to 2019/20
- Assumed increase in business rates income of 2% per annum in 2017/18 and 3% thereafter
- 1.99% increases in Council Tax year on year and
- 1% growth in Council Tax base, and

3.4.4 The forecast shows a projected budget gap of £3.4m by 2019/20, based on the assumptions above. Some of these assumptions relate to inherent risk within the forecast, such as the level of business rates income, which could go up, or down, and the final outcome of the consultation on New Homes Bonus. The forecast also contains a number of choices that the Council is able to take, which will directly affect the level of savings required and the level of reserves available to build resilience into the model.

3.4.5 The table below provides some sensitivity analysis around key variables in the forecast.

Sensitivity Analysis +/- 1%	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Council Tax	-	57	57	57
Business Rates	-	187	187	187
Pay award	-	-	-	115
Net Revenue Budget before transfers	130	130	136	141
	130	374	380	500

3.4.6 The Council plans to close the revenue funding gap by continuing to deliver against its 8-Point Plan for financial sustainability. The plan includes a range of projects that aim to establish new income streams and reduce costs by more efficient service delivery and better use of Council assets. The Council's Quarter 1 Revenue Monitoring report showed £540,000 of savings likely to be achieved during the year as a direct result of the plan. By far the most significant item reported was the additional income expected to be generated from the purchase of commercial property for rental income. This reduction in net revenue budgets is already taken into account within the forecast above. The table below provides indicative values for income generation or cost savings over and above those already reported.

8-Point Plan Cumulative Indicative Values	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
8 Point Plan - Cost Reductions				
- Efficiency savings (Channel Shift/Systems Thinking/Shared Services)	(133)	(208)	(321)	(383)
- Better Procurement & major contract renewal	(25)	(490)	(802)	(1,010)
8 Point Plan - Income Generation				
- Investment in Property (Commercial/Residential)	-	(407)	(457)	(482)
- Better use of existing assets	-	(19)	(111)	(111)
- Alternative investment opportunities	(20)	(144)	(180)	(180)
- Other income generation projects (including advertising)	(15)	(43)	(223)	(393)
- Reviewing fees, charges and concessions	-	(55)	(60)	(65)
Budget Challenge/Budget Strategy Group - **-** mix of cost reduction and income generation	-	(89)	(585)	(610)
Total potential revenue generated	(193)	(1,455)	(2,739)	(3,234)

Cumulative Funding Gap	215	1,237	2,866	3,412
Deficit	22	(218)	127	178

3.4.7 The table shows the funding gap being largely met via income or savings generated by the 8-point plan and identification of projects from the budget challenge exercise carries out with Heads of Service alongside the work of the Budget Strategy Working Group.

3.4.8 Heads of Service were asked to draw up efficiency plans for their services as part of the budget challenge exercise carried out in the early part of this year. This has resulted in a number of projects that will be developed, monitored and delivered over the medium-term (in addition to the £357,000 immediately realisable savings which have already been removed rom the budgets).

3.4.9 Alongside this work, the Budget Strategy Working Group was tasked by the Cabinet to review the workbook of the Council to identify areas for potential income generation, efficiency measures or savings. These projects will be built into the 8 point plan in order to have a single point of reference for the governance of the sustainability programme.

3.4.10 Some of the projects within the 8-Point Plan are at an early stage of development, for example, income from advertising, developing a trading arm or investigating options for residential investment, and therefore the financial benefits attached are broad estimates of the potential income to be achieved. The 8-point plan is a fluid plan, with new schemes coming forward as current projects are delivered and estimates revised as business cases are developed.

3.4.11 It is also important to recognise the resource constraints to delivering a significant change programme. Work is being undertaken to review the resource and governance requirements in order to ensure timely delivery of the plan.

3.5 Capital Forecast

3.5.1 The Medium Term Financial Forecast for capital expenditure includes the costs of acquiring or maintaining fixed assets such as land, building or equipment. The capital programme concentrates on four key areas – asset maintenance, invest to save projects, regeneration schemes and support to housing such as Disabled Facility Grants and grants to Registered Social Landlords.

3.5.2 The following forecast is based on the Quarter 1 Capital Monitoring position for capital expenditure for 2016/17 to 2019/20, adjusted for latest data and with a small allowance in future years for additional projects.

Forecast Capital Programme 2016/17 - 2019/20	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Capital Expenditure for Annual Programme	32,925	5,300	1,150	1,150
Allowance for Unidentified Future Items			1,000	1,000
	32,925	5,300	2,150	2,150
Funded by:				
Grants and Contributions	2,575	1,097	437	437
Revenue Contributions to Capital	750	300	300	300
Use of Capital Receipts	16,500	500	-	-
Prudential Borrowing	13,100	3,403	1,413	1,413
	32,925	5,300	2,150	2,150

3.5.3 Rushmoor's capital receipts reserve was £18.8m at the start of 2016/17 and as can be seen from the above table, will be almost entirely depleted during the forecast period. The Council has commenced borrowing in 2016/17 for liquidity purposes and in order to fund its substantial capital programme which supports the 8-point plan for sustainability by investing in income generating assets such as commercial property.

3.5.4 The Council has also set regeneration of its town centres as a strategic priority, which will lead to significant redevelopment schemes within both Aldershot and Farnborough. It is too early at this stage to estimate the total costs and timing of these projects or the extent of external funding, future income or capital return that these developments may generate. Nevertheless, they should be considered to obtain a more realistic picture of the level of capital expenditure over the medium term and consequently their impact on core capital reserves and the need for future borrowing.

3.5.5 The Council will seek to alleviate the pressures on its internal capital resources by maximising alternative sources of funding such as Growth

Deals, administered by Local Enterprise Partnerships, or by seeking private sector funding to support regeneration plans. In addition, some of the expenditure above is repayable in later years (for example, loan arrangements under the Annual Programme) or have the potential to provide future capital receipts once assets have been redeveloped and sold, or if the Council chooses to realise capital appreciation of assets held during the medium-term. However, it is evident that the Council will need to use its invested capital receipts and move to borrowing, both of which will impact directly on its revenue budget (through reduced interest receipts and costs of borrowing).

3.5.6 The Council will hold a balanced portfolio of investments and borrowing, maintaining sufficient liquidity to meet its working capital requirements while continuing to hold some longer term Pooled investments due to the quality of the funds and their significant contribution to the revenue account in terms of interest receivable.

3.5.7 It should be noted that the Council will only invest as long as its capital spending plans are affordable, prudent and sustainable. The key constraint on capital investment by the Council is the availability of capital resources and the scope to afford the financial implications in revenue terms. The existing strategy provided for the switching of funds earmarked as revenue contributions to capital outlay (RCCO) to instead support borrowing costs in the revenue account. This has been utilised in the forecasts above with general RCCO reducing from £550,000 to £300,000 in 2017/18. The capital forecast also assumes that with the increased allocation of Better Care Funding for the provision of Disabled Facilities Grants, the past contribution of £200,000 per annum from the revenue account will no longer be required.

3.5.8 The Council will review its prudential indicators for capital financing, including borrowing limits, in February, as part of the annual Treasury Management Strategy.

4 CONCLUSIONS

4.1 The Financial Strategy as set out at Appendix A sets a framework for managing the Council's finances and will support the new Council Plan being developed alongside the revised aims and priorities of the current Cabinet.

4.2 The Council has taken significant steps to reduce its cost base whilst protecting front line service delivery, keeping Council Tax low and continuing to invest in the future through annually reviewing its priorities and undertaking key invest-to-save and regeneration projects.

4.3 The 8-Point Plan will produce significant efficiency savings over the medium term from a combination of service efficiency reviews, procurement savings, invest-to-save projects, new income generation and decisions on the structure of the Council.

4.4 However, the Council continues to face significant financial challenges due to reduced central government funding, increased financial volatility, uncertainty and risk over the medium term. The Council will need to continue to undertake a detailed review of areas where efficiencies can be made in order to realign budgets to meet its priorities and to develop new income streams to support current spending plans.

4.5 The Council will need to ensure adequate risk reserves are maintained to provide capacity to invest in service transformation and to hedge against future shortfalls. The use of reserves is not a long-term solution to funding challenges but does enable the Council to plan and implement service changes over time, whilst providing a buffer against sudden shifts in the Council's income streams. This strategy provides resilience and allows the Council time to approach future funding requirements in a considered, structured way.

4.6 The Council's capital expenditure plans could mean that internal capital resources will be largely depleted during 2016/17. The Council is moving to borrowing, the timing and scale of which will depend on the pace of investment, the external funding that can be secured and the ability to absorb the cost of that borrowing in its general fund.

4.7 It is essential that Capital and Revenue plans are considered together, due to their interaction. For example, the Council has formed a strategy using the 8-point plan to use capital expenditure to fund invest-to-save schemes in order to close the revenue funding gap. This in turn puts pressure on capital resources, which leads to borrowing, adding pressure on revenue by incurring borrowing costs.

5 RECOMMENDATIONS

5.1 Cabinet to:
- (i) Note the principal issues identified in the report and in the summary of risks at Appendix B, and
- (ii) Recommend to Council the approval of the Financial Strategy set out at Appendix A
- (iii) Approve the acceptance of the multi-year settlement offer and
- (iv) Delegate the production of an efficiency plan to the Head of Financial Services in consultation with the portfolio holder for Corporate Services.

AMANDA FAHEY
HEAD OF FINANCIAL SERVICES

MEDIUM TERM FINANCIAL STRATEGY 2016/17 – 2019/20

The Medium Term Financial Strategy is based around five key principles. These are set out below with supporting actions for each principle.

Revenue Expenditure - The Council recognises that it has to target its limited resources to where they are most needed, ensuring good services that represent good value for money. The Council recognises the need to reduce its net revenue expenditure in the face of reduced funding from central government, economic pressures, local demography and increased demand for services.

- The Council will set a balanced budget each year, reflecting its objectives, priorities and commitments.

- The Council will seek to deliver efficiencies, new income streams and cost reductions based on the key elements of its 8-point plan for delivering financial sustainability;

The 8-point plan is a fluid plan, responding to new pressures and adapting to new initiatives so these over-arching headings may change over time.

- There is no presumption that non ring-fenced grants will be spent on the purposes for which they are nominally provided (appropriate business cases to be provided for spending against such grants)

- Regular review of the Council's fees and charges

- The Council will seek to reduce reliance in its revenue budget on uncertain funding streams such as New Homes Bonus.

Capital Expenditure - the Council will only undertake capital investment in support of its priorities and where its supports asset maintenance, invest-to-save schemes or strategic intent (such as regeneration). Capital spending plans, whether funded from internal resources or through borrowing, will be affordable, prudent and sustainable.

- The Council will develop an asset management strategy that seeks to maximise return on existing Council assets, divest itself of low-performing assets and sets out parameters for investment in property to increase income to the Council.

- The Council will set prudential indicators, including borrowing limits, for capital financing through its annual Treasury Management Strategy ensuring any future borrowing is affordable, prudent and sustainable.

- The Council will explore opportunities for borrowing as the need arises such as Public Works Loan Board, European Investment Bank, through the Local Enterprise Partnership, other Local Authorities and the UK's Municipal Bond Agency.

- The Council will seek alternative forms of funding to use of its internal resources where possible, maximising the use of external resources such as s106 contributions and funding from Local Enterprise Partnerships and exploring private sector funding opportunities where available.

- The Council will review the estimated level of Revenue Contributions to Capital annually as part of the budget process, the actual level of contribution being dependent on the outturn position each year. As the Council moves towards borrowing, the contributions to capital may be replaced in the revenue budget by the cost of carrying debt.

- Capital receipts from the sale of assets will be used to meet future corporate priorities rather than be retained for use by the service that has relinquished the asset

- Resources allocated to particular capital projects but subsequently not required are returned to meet future corporate priorities rather than be retained for use by that service

- No new capital schemes are included in the programme without the necessary resources to meet the full capital costs and any on-going Revenue costs being in place.

- All new capital schemes are subject to the bid process for inclusion in the Capital Programme, which requires whole life costing for new bids for the current revised budget and for the upcoming year. Indicative bids are required for future years in order to have a picture of capital spending over the medium term but these later projects will require business cases and further approval as they come forward. New capital schemes brought forward in-year are supported by business cases and reported to

DMB and Cabinet in line with current financial regulations.

Reserves - the Council will maintain a reasonable level of usable reserves to enable it to weather the volatility of its funding position and to support invest-to-save schemes as part of its aim to reduce net revenue costs.

- The Council will maintain its General Fund balance between £1 million and £2 million.

- In addition, the Council will maintain other usable reserves (E.g. Stability & Resilience Reserve/Service Improvement Fund) to provide a buffer against fluctuations in income and expenditure and to support invest-to-save schemes. The estimated level of these usable reserves (including the General Fund Balance) at the close of 2016/17 is £5.3 million, which is around 6.5% of the Council's gross expenditure. The Council will aim to maintain a minimum level of reserves at 5% of gross expenditure, while recognising that the figure may go up or down, adjusting to short-term pressures within the revenue budget principally as a result of the operation of the Business Rates Retention Scheme.

- Reserves are not used to meet on-going, unsustainable levels of expenditure but may be used in the short-term in conjunction with plans to reduce net revenue costs over the medium-term

- Regular review of all reserves in order to:

    - Maintain and replenish funds which will be used to mitigate the substantial risks identified over the medium term

    - Maintain reserves to support the provision of major projects, invest-to-save schemes or service reviews in order to support the work of the 8-point plan as referred to above

    - Release those reserves which are no longer required due to changing circumstances

- The Council will annually review the level of earmarked reserves it sets aside to mitigate against known risks or future liabilities, to ensure that the level of those reserves remains appropriate, returning balances no longer required to the General Fund.

Governance and Performance - the Council will monitor the delivery of its financial strategy and performance against savings requirement, adjusting the plans to meet changing demands. This will be achieved by:

- Annual review of key strategies such as Medium Term Financial Strategy and Treasury Management Strategy, with updates to relevant Committees, Policy and Review panels and Cabinet as appropriate.

- Continuous improvement of governance and project management of key programmes and projects, ensuring benefits of invest-to-save projects are realised.

- Ensuring that the Council's budgets, financial records and accounts are prepared and maintained in line with accounting standards, CIPFA Code of Practice on Local Government Accounting, the CIPFA Prudential code and relevant sections of the Council's Constitution and Financial Regulations.

- Timely budget and performance monitoring arrangements (through budget monitoring and quarterly performance monitoring reports).

- Preparation of financial plans to cover a four-year period, including revenue and capital expenditure, Tax bases and Council Tax Support Scheme.

- Budget guidelines are maintained and reviewed annually by the Council's s151 officer.

- New spending plans are considered only if they make a clear contribution to the Council's objectives and priorities or meet new statutory responsibilities.

- Ensuring proposals for significant projects and changes are set out in an appropriate business case to assess the impact on the Council.

The Council will seek out opportunities to work with partners to maximise outcomes for our residents, explore access to funding and maximise the shared benefits of joint working.

- The Council will explore joint working opportunities or shared services where they add benefit to the Council or its residents with partners including (but not exclusive to):

    - County Council
    - Police
    - Fire and Rescue Authority
    - Other local authorities
    - Local Enterprise Partnership
    - Voluntary and Community sector
    - Private sector

- The Council will seek to maximise the financial benefit and security of any potential devolution deal with government.

- The Council will seek to optimise external funding opportunities to defray cost of services and capital investment or to increase available resources.

APPENDIX B

SUMMARY OF RISK ASSESSMENTS

Risk	Level	Mitigation
Overall government funding through formula grant and business rates is less than assumed.	HIGH (RED)	Assess impact of Local Government Settlement at earliest opportunity, monitor impact of any change to the business rates retention scheme and revise forecasts as necessary. Major mitigation is afforded by the acceptance of the multi-year settlement which provides greater certainty over funding over the medium term
Planned efficiency savings and savings targets are not achieved.	HIGH (RED)	The Council has developed an 8-point plan towards financial sustainability with on-going review of the plan in respect of timescales, deliverability and net benefits. The Council has also set aside Reserves to support invest-to-save schemes and to mitigate against the effects of fluctuations in net revenue spending while longer-term sustainability plans are moved forward.
Reduction in interest income due to low interest rates or investment returns being lower than budgeted for.	MEDIUM (AMBER)	Interest rate risk is managed through the Treasury Management Strategy, which has moved towards longer- term, pooled funds and other fixed rate instruments to protect the Council from the impact of low base rates. Mid- and year-end monitoring reports are produced on all treasury management activity, in addition to reporting during the budget monitoring cycle. Capital expenditure, which reduces the core reserves available for investment, will only be undertaken where prudent and affordable. Mitigated to some extent by the reduction in investment balances held as the Council's capital reserves are depleted and it moves towards borrowing
Pressure on Revenue account due to cost of borrowing	MEDIUM (AMBER)	Interest rate risk will is managed through the Treasury Management Strategy. Careful consideration will be given to timing and duration of borrowing and the application of policy to determine the minimum revenue provision, in order to maintain prudent, affordable borrowing.
Fees and Charges income does not achieve the assumed levels.	MEDIUM (AMBER)	The Council has a well-developed in-year budget monitoring process that identifies any variations early to allow corrective action to be taken. The Council also maintains a Stability and Resilience Reserve to mitigate against large fluctuations in its income streams

		in the short term, while longer term plans to reduce net expenditure are being progressed.
Legislative changes not anticipated.	MEDIUM (AMBER)	Keep up to date with Government policy and consultations.
Expenditure is not contained within approved budgets.	LOW (GREEN)	The Council has a well-developed in-year budget monitoring process that identifies any variations early to allow corrective action to be taken. A reasonable level of usable reserves is maintained to meet any unavoidable unexpected costs.
Unplanned expenditure requirements.		
External grants and contributions are less than forecast.		