ANNEX 1

COUNCIL MEETING – 10TH DECEMBER, 2015

AGENDA ITEM NO. 5

MEDIUM TERM FINANCIAL STRATEGY 2015/16 – 2018/19

A report from the meeting of the Cabinet held on 17th November, 2015.

1. INTRODUCTION

1.1 This report follows consideration by Cabinet of the Medium Term Financial Strategy, in report FIN1518. The strategy is reviewed annually in response to internal and external factors such as changing corporate priorities, the prevailing economic conditions, government policy and changes to funding mechanisms.

1.2 The Cabinet approved the Medium Term Financial Strategy 2015/16 – 2018/19 and recommends it for adoption by the Council.

2. BACKGROUND

2.1 The existing financial strategy has served the Council well in supporting financial planning over the medium-term, and has been a key pillar of the Corporate Plan. It is closely aligned with, and supports, the 8-point plan for achievement of sustainability, which was developed during previous budget cycles.

2.2 While the Council's revenue position is performing well against the estimates set in the original budget, there remains a longer-term imperative of reducing our net service costs, by either reducing costs or increasing income, rather than relying on short-term measures to balance the budget. Delivery against the 8-point plan and effective resourcing of key projects will help us to achieve this position, alongside maximising the benefit from our reserves. This should allow the Council to build its resilience against the increasing volatility of its funding streams, and to improve its financial stability.

2.3 This approach is supported by the recent Audit Results Report from our external auditors, Ernst & Young, in relation to the Council's arrangements for securing economy, efficiency and effectiveness, alongside an unqualified audit report on the Council's financial statements.

3 STRATEGY REVIEW

3.1 Cabinet considered the following key areas as part of its review of the financial strategy:

<u>Central Government Funding</u>
The changing face of local government funding has meant a shift in risk and responsibility to local authorities (e.g. Localised Council Tax support scheme,

Business Rates Retention, greater use of non-ring fenced grants) although in practice the local level of autonomy is variable. The Council needs to consider the risk of changes to funding streams such as Revenue Support Grant and New Homes Bonus, the risks and opportunities afforded by Business Rates Retention, the constraints around Council Tax income via referendum limits and the on-going viability of these funding streams in their current form.

On the 25th November, the Chancellor's Autumn Statement and Spending Review announcements confirmed that there will be consultation on the future distribution of the New Homes Bonus, confirmed earlier announcements around the move to 100% Business Rates Retention and in addition suggested a 'rebalancing' of funding towards those with social care responsibilities. The financial strategy therefore requires the flexibility to address these changes as they become certain and as the detail of their operation unfolds.

Economic factors
Cabinet considered the current and projected economic position, including continued austerity measures, inflation and the outlook for interest rates.

Level of Reserves
Key reserves are held by the Council to support delivery of invest to save schemes and to manage short-term fluctuations in income and expenditure. Cabinet considered the causes of such fluctuations including the inherent volatility of the income from Business Rates Retention and the comments of the Council's external auditors in respect of level of reserves.

Devolution
The financial aspects of a potential Hampshire-wide devolution deal were considered.

Policy changes/demand for services
Cabinet considered risks around loss of income and chargeable services, increasing demand for services, the effect of Welfare Reform and other potential legislative changes.

Capital spending
Cabinet considered the effects of capital spending plans on the Council's capital resources and the necessity to move to prudential borrowing at a point in the future.

4 CONCLUSIONS

4.1 The Financial Strategy as set out at Appendix A sets a framework for managing the Council's finances within the context of the Corporate Plan.

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 strategy needs to have sufficient flexibility to address the future changes to funding as the details emerge. 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 see its internal capital resources significantly depleted over the medium term. The Council would then need to move 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 will lead to borrowing in the relatively near future, adding pressure on revenue by incurring borrowing costs.

5 RECOMMENDATIONS

5.1 It is recommended that Council approve the Medium-Term Financial Strategy 2015/16 – 2018/19 attached at Appendix A.

P J MOYLE
LEADER OF THE COUNCIL

APPENDIX A

MEDIUM TERM FINANCIAL STRATEGY 2015/16 – 2018/19

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

(i) *Revenue Expenditure - The Council recognises that it has to target its limited resources to where they are most needed. This is supported by one of the five themes that underpin the Council's purpose: Good Value Services – 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;

- 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.

(ii) *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 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. Once the Council moves towards borrowing, the contributions to capital will 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.

(iii) *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 2015/16 is £5.5 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.

(iv) 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.

(v) 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.