CABINET | **COUNCILLOR PAUL TAYLOR**
CORPORATE SERVICES PORTFOLIO HOLDER

INSERT DATE | **REPORT NO. FIN1731**

KEY DECISION? ~~YES~~/NO

MEDIUM TERM FINANCIAL STRATEGY 2017/18 – 2020/21

SUMMARY:
This report sets out the Medium Term Financial Strategy, which provides the framework to deliver a stable and sustainable financial position to enable the Council to achieve its strategic objectives, and which will support the preparation of the 2018/19 budget.

It also sets out the Medium Term Financial Forecast, which is produced for indicative planning purposes as final decisions on the overall Budget and Council Tax level will be made by Council in February 2018.

RECOMMENDATIONS:
That Cabinet

(i) recommend the Medium Term Financial Strategy 2017/18 – 2020/21 to Council for approval (Appendix A) and

(ii) note the Medium Term Financial Forecast and the principal issues and risks associated with the forecast

1 INTRODUCTION

1.1 The Medium Term Financial Strategy (MTFS) complements the Council Plan by providing a framework for financial decision-making. While the Council Plan sets out the Council’s priorities and how it intends to meet the needs of its residents, businesses and visitors, the financial strategy describes how the financial management process will contribute to delivering these priorities.

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 MTFS covers both Revenue and Capital activities.

1.4 As we 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 MTFS has been updated but remains largely unchanged from the Strategy approved by Council on 6th October 2016.

2 STRATEGY REVIEW

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

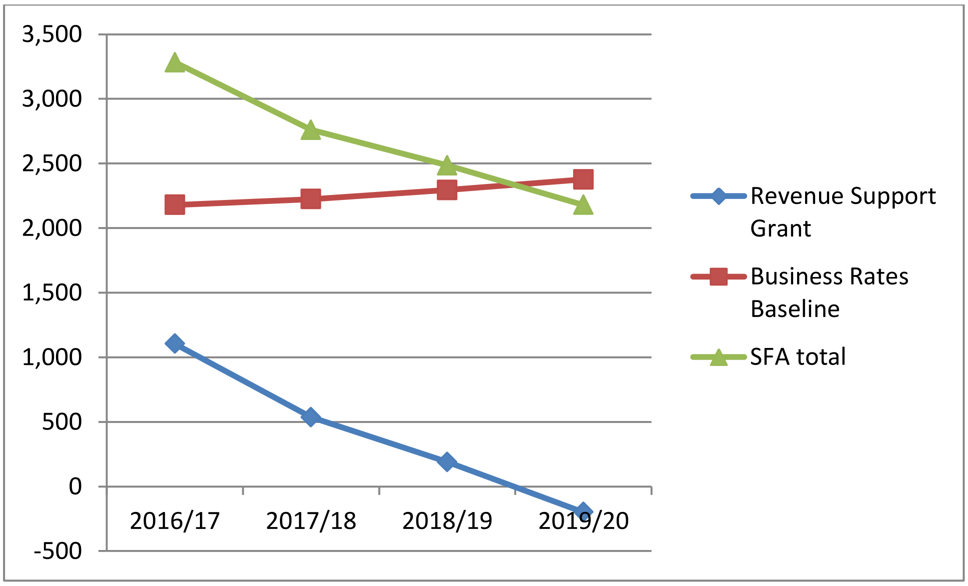
2.1.1 <u>Central Government Funding – general comments</u>

In recent years, local government has weathered significant cuts in funding coupled with additional risk and responsibility.

Both the Business Rates Retention and Localised Council Tax Support Schemes have introduced a level of funding risk to local authorities balanced by some increased flexibility around the level of reliefs, discounts or exemptions awarded. Flexibilities around business rate reliefs are aimed at not only allowing Councils to support local ratepayers but to encourage economic development in the Borough and thereby benefit from increased rates income. For example, the Council has recently adopted a policy which can provide incentives to attract inward investment and to bring unoccupied business premises back in to use.

In addition, a number of grants have been subsumed into overall funding levels and are no longer visible as individual lines within the Settlement Funding Assessment (SFA). The SFA continues to reduce in total, with the Revenue Support Grant element disappearing altogether by 2019/20 to be replaced by an increased tariff payable against business rates (a negative grant) as illustrated below:

CHANGE IN LOCAL GOVERNMENT FINANCE SETTLEMENT					
	Revenue Support Grant	Business Rates Baseline	SFA Total	Change	Change
Year	£000	£000	£000	£000	%
2016/17	1,104	2,179	3,283		
2017/18	536	2,223	2,760	-523	-15.9%
2018/19	190	2,295	2,485	-275	-10.0%
2019/20	-198	2,377	2,179	-306	-12.3%



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.

The Chancellor has previously 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 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.

The new scheme also aims to deliver a fundamental fair funding review of the way relative needs are assessed.

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.

While work is continuing on the Fair Funding Review and the expansion of 100% Business Rate pilots, the legislative workload created by the UK’s decision to leave the European Union meant that the Local Government Finance Bill failed to be mentioned in the Queen’s Speech and may mean that elements of the new scheme requiring legislative change may be delayed.

The government has however, published an invitation to Councils to pilot 100% Business Rates Retention in 2018/19 and to pioneer new pooling and tier-split models. This provides an opportunity to retain the Government’s 50% share of growth in business rates but also brings risks and uncertainties. There is currently no guarantee within the system that the area would be no worse off than under the current scheme and the area would be required to meet the cost of all appeals and backdating in the year.

In addition, pressure on income could occur in the short-term from the granting of local discretionary reliefs such as the Growth Incentive Scheme referred to earlier in the report. Care must be taken to ensure short-term investment of this nature reaps the expected rewards of inward investment and future business rates growth.

2.1.3 Devolution

While devolution remains on the national agenda, supporting 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 and there seems to be less urgency around deal negotiation than previously.

While a number of proposals have been under consideration locally, it is unlikely that any of these will progress in the short-term. However, as local devolution necessitates a locally determined method of redistribution of business rates, this does result in a level of uncertainty over the medium-term.

2.1.4 New Homes Bonus

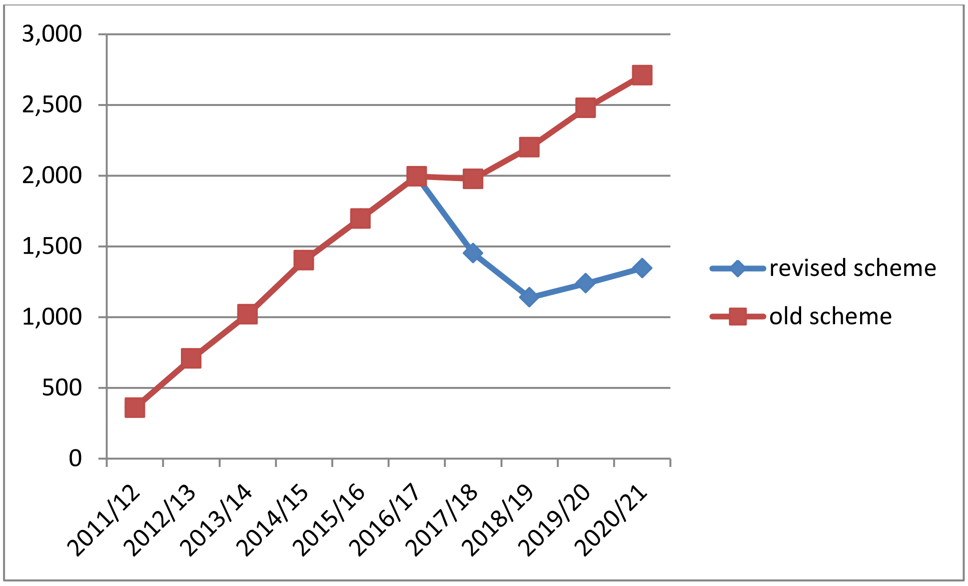
Reforms to the New Homes Bonus (NHB) introduced for 2017/18, meant a reduction in the number of legacy payments from 6 to 4 by 2018/19 and the introduction of a national baseline for housing growth to sharpen the incentive for councils to deliver more new homes. (Bonus will only be paid for growth above the baseline). This significantly reduced expected payments under the scheme based on normal rate of growth within the Borough. However, the increased housing numbers due to the Wellesley development in Aldershot are now starting to feed into the system, which is based on changes to the number of houses in each council tax band, measured October to October of the preceding year i.e. 2018/19 NHB is based on growth between October 2016 and October 2017.

It is likely that when the local government finance settlement is announced, the baseline for growth will be increased which could significantly affect future payments. In addition, recent consultation on the Local Government Finance Settlement 2018/19 raised again the potential for NHB to be lost on developments granted on appeal to the Planning Inspectorate. The government also intends to introduce further reforms in 2019/20.

The chart below shows actual allocations up to 2017/18 and forecast allocations from 2018/19 to 2020/21 based on estimated local housing growth but without change in growth baseline or reductions related to planning decisions.

New Homes Bonus		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Actual allocation	2011/12	359	359	359	359	359	359				
Actual allocation	2012/13		347	347	347	347	347				
Actual allocation	2013/14			313	313	313	313	313			
Actual allocation	2014/15				382	382	382	382			
Actual allocation	*2015/16*					295	295	295	295		
Actual allocation	*2016/17*						298	298	298	298	
Actual allocation	*2017/18*							162	162	162	162
Forecast allocation	*2018/19*								383	383	383
Forecast allocation	*2019/20*									394	394
Forecast allocation	*2020/21*										407
	Total	359	706	1,019	1,401	1,696	1,994	1,450	1,138	1,237	1,346

The following graph compares the bonus that would have been awarded under the old and current schemes and illustrates the significant reduction in funding resulting from the 2017/18 changes to the scheme.



2.1.5 <u>The multi-year settlement offer</u>

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 an offer of a multi-year settlement, spanning the four years from 2016/17 to 2019/20.

97% of Councils (including Rushmoor) took up the offer as it provided a level of certainty for Councils regarding their financial position for the period to 2019/20. Councils that chose not to accept the offer are subject to the existing annual process for determining the level of central funding that they will receive and the uncertainty that this will bring.

The period of certainty allowed Councils to take longer-term decision, planning ahead and implementing reforms. However, as we now move into the third year of the offer, the certainty over future funding is vastly reduced and less benefit is derived.

2.1.6 <u>The 2018/19 Local Government Finance Settlement – Technical Consultation paper</u>

On the 14th September 2017, DCLG published a technical consultation paper on the 2018/19 Local Government Finance Settlement, as referred to in section 2.13.

It outlines

- the method for distributing NHB and plans for further reform
- proposal for the 2018/19 council tax referendum principles (for Shire Districts less than 2% or up to and including £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
- the approach to Mayoral Combined Authorities precepts in 2018/19
- the approach to allocating funding where a fire authority transfers from a County Council to a Police and Crime Commissioner

2.1.7 Council Tax

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

If Councils increase their Council Tax by, or above, a certain pre-announced percentage then they have to arrange a referendum for taxpayers to approve the increase. This, alongside the availability of Council Tax Freeze Grants between 2011/12 and 2015/16 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 – 2017/18

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
2017/18	1,591	4.0

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 increases shown in the table for 2016/17 and 2017/18.

Rushmoor raised its Council Tax by £5 in 2017/18, the maximum permissible for Shire Districts without triggering a referendum. The forecast contained in the report includes future increases at the same rate, which equates to a 2.59% increase for 2018/19, above the 2017/18 level.

Over the medium-term period, raising Council Tax by £5 per annum generates £913,000 of additional income to spend on services when compared to holding Council Tax at its current level.

	2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
COUNCIL TAX REQUIREMENT	5,864	6,016	6,168	6,320
Illustrative CT Levels (£)	192.73	197.73	202.73	207.73
CT Base	30,424.24	30,424.24	30,424.24	30,424.24
& CT Increase (%)		**2.59**	**2.53**	**2.47**
Additional income p/a		152	152	152
Additional income above base year 2017/18		152	304	456
Cumulative additional income		152	456	913
Annual Council Tax increase per Band D		5.00	5.00	5.00
Cumulative Council Tax increase per Band D from 2017/18 - 2020/21				**15.00**

2.1.8 Transformational change

The Council has responded well to the significant cuts in central government funding to date and the increasing pressures on its front line services but these on-going pressures 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.

One significant project that has already delivered £950,000 of additional annual income to the Council, is the purchase of commercial property for rental returns. The Council has earmarked a further £15 million for investment to add to the £16 million already undertaken. However, the practice of investing in commercial property, particularly outside of a Council's own area, has received some negative publicity over recent months as more and more Councils utilise their borrowing capabilities to secure long-term, reliable income streams. Hints of government intentions to tighten regulations in this area, or even to go as far as preventing borrowing for these purposes, is widespread and could potentially be introduced in the autumn Budget on 22nd November.

This could mean that there is just a small window of opportunity for the Council to build on the returns it has already successfully achieved; generating income that has been vital to the continuation of service provision in the Borough.

2.1.9 Treasury Management

The Chartered Institute of Public Finance and Accountancy (CIPFA) recently consulted on proposed changes to both the Treasury Management and Prudential Codes. The former aims to bring commercial investments within the same reporting framework as cash investments. The latter introduces a requirement to report on the overall capital strategy to full council in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The capital strategy should set out the long term context in which capital expenditure and investment decisions are made and give due consideration to both risk and reward and impact on the achievement of priority outcomes. It is intended to publish revised codes towards the end of the current year for implementation for 2018/19. The new requirements will be incorporated into the annual Treasury Management Strategy, which will be considered by Council in February 2018.

Changes to International Accounting Standards will see the introduction of IFRS 9 in 2018/19, which sees the removal of the 'Available for Sale' classification for some investments, which allows gains and losses to be held in a reserve until realised i.e. once the asset is sold. In future, if there is a loss then that becomes a cost to the Council, and could impact on the council tax payer. This introduces added risk to the revenue position. It is hoped that DCLG may introduce a statutory override, as they have done in other areas, to reverse the impact of IFRS 9.

At its meeting on 13th September 2017, the Monetary Policy Committee voted 7 – 2 in favour of maintaining the Bank Rate at 0.25% with the minutes suggesting that the upside risk to Bank Rate had increased. This potential rise in bank rates is dependent upon policy makers seeing continued erosion of economic capacity and a gradual rise in underlying inflationary pressure.

All members agreed that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent. This was reinforced by comments from the Governor of the Bank of England, Mark Carney, speaking on BBC Radio 4's "Today" programme on 29th September, who suggested that if the economy continued on the track that it has been on, then an interest rate increase would be expected in the relatively near term.

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 also has extensive capital expenditure plans over the medium-term, to deliver Council priorities for regeneration of its town centres, for example, in addition to significant invest-to-save projects. 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 are now largely depleted.

The Council undertook its first major borrowing on 14th September 2016, borrowing £6m until 1st December 2016 from another Local Authority at 0.25%. While the Council's level of investments is likely to be maintained at around £33.5 million over the medium-term, producing returns of approximately £850,000 per annum, its level of external borrowing (based on estimated capital expenditure over the period) could rise to around £97 million. The costs of borrowing are reflected in the Medium Term Financial Forecast (MTFF) set out in this report and include both Minimum Revenue Provision and interest costs. The interest costs depicted are shown at short-term rates. At some point, the Council will needs to consider whether to lock in some of its borrowing to long-term, fixed rates. This will have considerable impact on the revenue budget in the short to medium term while avoiding the risk of higher rates in the future. The table below illustrates the difference in borrowing costs between current short-term and long-term borrowing rates.

Borrowing costs	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Forecast total borrowing	48,000	55,000	76,000	97,000
Cost of borrowing (at short tem rates):				
Minimum Revenue Provision	164	203	383	416
Interest cost (short-term)	51	141	173	267
	215	344	556	683
Cost of borrowing (at long term rates):				
Minimum Revenue Provision	164	203	383	416
Interest cost (long-term)	51	752	920	1,424
	215	955	1,303	1,840

If all borrowing were locked into long-term rates from 1st April 2018, this would result in an addition £1.1m pressure on the general fund in 2020/21 for example. In reality, a mix of long and short-term rates is likely to be utilised.

Long-term decision-making is required as decisions made now may still be affecting the Council 50+ years into the future. For example, the capital forecast for the medium-term includes projects that will be completed in the final year of the forecast period. MRP does not commence until the year after a project is completed. So while the Council may borrow in the next few years to support Town Centre regeneration, Leisure provision and the development of various Housing projects, the effect of the MRP is not shown in the current forecast but amounts to an additional cost of £666,000 annually for the following 50 years.

2.1.10 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 expenditure. 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. In 2017/18, a further £300,000 of qualifying costs were identified subject to the sale of previously identified surplus assets.

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. The Council should 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.

2.1.11 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,
- Welfare Reform, with potential loss of benefits for some parts of the community leading to greater demand for support via Council services.
- The fallout for local services from budget proposals being considered by Hampshire County Council
- Regulatory changes such as the inability to pass on surcharges for the use of credit cards to the consumer

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 an uncertain environment, amid high-level announcements about the future of business rates and ahead of the Autumn Budget (November 22nd) 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 Revenue Forecast

3.3.1 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.

3.3.2 The starting point for the forecast at Table 1 is the 1st quarter budget monitoring position for 2017/18 as reported to Cabinet 22nd August 2017. After allowing for any significant one-off items of expenditure or income for the current year, the forecast takes into account major changes forecast for the period up to 2020/21.

Revenue Forecast 2017/18 - 2020/21	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Net Revenue Budget	11,575	11,575	11,913	12,912
Revenue savings:				
Additional contract savings		(276)	(88)	(48)
Additional staff turnover savings		(150)		
Commercial Property		(155)		
Cost Pressures:				
Pay award/Increments		265	320	380
Inflation/contract growth		115	180	180
Pensions (increase in Super % + fixed sum)		160	175	155
Variations in Service & further supplementary estimates in year		250	200	150
Interest cost		90	32	94
Minimum Revenue Provision		39	180	33
Net increase in Revenue Budget		338	999	944
Transfers to/(from) Reserves:				
Stability & Resilience Reserve	0	(800)	(400)	(400)
General Fund balance	(551)	51		
Total Transfers to Usable Reserves	(551)	(749)	(400)	(400)
Adjusted Net Revenue Budget	11,024	11,164	12,512	13,456
<u>Funding:</u>				
Other grants	(40)			
New Homes Bonus	(1,450)	(1,138)	(1,237)	(1,346)
Revenue Support Grant	(536)	(190)	-	-
RBC share of rates collected	(18,990)	(19,365)	(20,140)	(20,901)
Tariff payable	15,443	15,940	16,705	17,649
Levy /(Safety net)	828	953	881	733
s31 Business Rates grants	(915)	(777)	(705)	(674)
Council Tax	(5,864)	(6,106)	(6,354)	(6,609)
Collection Fund (surplus)/deficit – C/Tax	(88)	(75)	(75)	(75)
- NNDR	779	332	-	-
Total Funding	(10,833)	(10,426)	(10,924)	(11,223)
Annual Funding Gap	191	547	850	645
Cumulative Funding Gap	191	738	1,588	2,233

Revenue Balances	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
General Fund Balance	1,449	1,500	1,500	1,500
Stability & Resilience Reserve	3,808	3,008	2,608	2,208
Service Improvement Fund	514	414	314	214
Estimated Balances at 31 March	5,771	4,922	4,422	3,922
	7.21%	*6.15%*	*5.53%*	*4.90%*

3.3.3 The following assumptions have been made in the forecast:

- Pay awards of 1.5% in 2018/19, 2% in 2019/20 and 2.5% in 2020/21 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,
- Interest costs at short-term rates of approximately 0.45% and the associated Minimum Revenue Provision
- Drawdown of £800k from the Stability & Resilience Reserve in 2017/18 and £400k thereafter
- General Fund balances held at the mid-point of the approved range from 2018/19 to 2020/21
- Assumed increase in business rates income of 3% per annum in 2018/19 and 3.5% thereafter
- £5 increase in Council Tax year on year and
- 1.5% growth in Council Tax base

3.3.4 The forecast shows a projected budget gap of £2.2m by 2020/21, 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 outcome of further changes to 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.

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

Sensitivity Analysis	2018/19 £000	2019/20 £000	2020/21 £000
Council Tax rate +/- 1%	59	59	59
Council Tax Base +/- 1%	59	59	59
Business Rates +/- 1%	184	193	202
Pay award +/-1%	115	115	115
NHB growth threshold change from 0.4% to 0.5%	44	44	44
	461	470	479

As mentioned earlier in the report, one of the biggest variables would be the timing and extent of moving to longer term, fixed rate borrowing.

Interest Payable short v long term rates	2018/19 £000	2019/20 £000	2020/21 £000
Current projections at short term borrowing rate of 0.45%	141	173	267
If locked in to long term borrowing rates at 2.4%	752	920	1,424

3.3.6 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 £464,000 of savings likely to be achieved during the year as a direct result of the plan. The most significant item reported was the reduction in contract costs for Waste Collection, Recycling, Street Cleansing and Grounds Maintenance following an innovative competitive dialogue tendering exercise. 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	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
8 Point Plan - Cost Reductions				
- Efficiency savings (Customer & Digital/Shared Services/Service Transformation)	-	113	173	173
- Organisational Redesign/MARS	-	53	368	368
- Better Procurement & major contract renewal	50	108	400	400
8 Point Plan - Income Generation				
- Investment in Property (Commercial & Residential)	113	450	500	500
- Better use of existing assets	22	36	36	36
- Other income generation projects	11	10	20	20
- Reviewing fees, charges and concessions	-	107	186	203
Future projects to be identified				400
Total potential revenue generated	196	877	1,683	2,100

Cumulative Funding Gap	191	738	1,588	2,233
Surplus/(Deficit)	5	139	95	(133)

3.3.7 The table shows the funding gap being largely met via income or savings generated by the 8-point plan with identification of further projects to come from a combination of future budget challenge exercises alongside the work of the Budget Strategy Working Group. There is sufficient time to develop and implement these new initiatives to close the funding gap over the medium-term.

3.3.8 However, it should be noted that there will be additional pressures of around £666,000 on the revenue budget from 2021/22 if all of the forecast capital expenditure is incurred and met from borrowing. The current funding gap will also increase dependent on use of long-term borrowing rates and other sensitivity as outlined in paragraph 3.3.5, requiring additional savings to be found. This will also have an impact on the forecast income from commercial property investment included as part of the savings plan at 3.3.6, as this shows income net of short-term interest cost and MRP. If long-term rates were used, additional savings of £285,000 would be necessary in each of the years 2018/19 to 2020/21.

3.3.9 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.

3.4 Capital Forecast

3.4.1 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.

3.4.2 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 2017/18 – 2020/21	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Original capital programme published February 2017	13,629	2,026	2,161	1,341
Supplementary capital expenditure approvals in 2017/18	23,359	-	-	-
Potential future regeneration schemes	-	6,800	27,100	26,600
	36,988	8,826	29,261	27,941
Funded by:				
Grants and Contributions	3,285	1,331	1,431	831
Revenue Contributions to Capital	-	-	-	-
Use of Capital Receipts	5,100	400	6,200	6,200
Prudential Borrowing	28,603	7,095	21,630	20,910
	36,988	8,826	29,261	27,941

3.4.3 Rushmoor's capital receipts reserve was £5.9m at the start of 2017/18, much of which is ring-fenced for use against specific projects such as the Council's investment in the new conference and exhibition centre at Farnborough

International (FIL). The Council will in future need to borrow substantially to afford its ambitious capital programme, while always having an eye to the affordability of borrowing within the revenue account. The need for good business cases, with sound financial analysis, will be essential to evaluate schemes moving forward, ensuring that income generating schemes more than cover their revenue costs and that all other capital projects focus on the delivery of key strategic objectives or are essential for future service delivery.

3.4.4 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 the Housing Infrastructure Fund from the Homes and Communities Agency, 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 with FIL) 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.

3.4.5 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.

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

3.4.7 High-level risks to the forecast are set out at Appendix B.

4 CONCLUSIONS

4.1 The Medium-Term Financial Strategy as set out at Appendix A sets a framework for managing the Council's finances and will support the Council Plan.

4.2 The Council has taken significant steps to reduce its cost base whilst protecting front line service delivery 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 mitigation 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.

AMANDA FAHEY
HEAD OF FINANCIAL SERVICES

MEDIUM TERM FINANCIAL STRATEGY 2017/18 – 2020/21

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

CLT 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 2017/18 is £5.8 million, which is around 7.2% 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.
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.		