ANNEX 2

COUNCIL MEETING – 7TH DECEMBER, 2017

AGENDA ITEM NO. 6

MEDIUM TERM FINANCIAL STRATEGY 2017/18 – 2020/21

A report from the meeting of the Cabinet held on 17th October, 2017.

1. INTRODUCTION

1.1 This report follows consideration by Cabinet of the Medium Term Financial Strategy, in report FIN1731. 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 recommends the Medium Term Financial Strategy 2017/18 – 2020/21 to Council for approval.

2. BACKGROUND

2.1 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 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 the Council to achieve this position, alongside maximising the benefit from reserves. This should allow the Council to build its resilience against the increasing volatility of its funding streams, and to improve its financial stability.

2.2 The Strategy provides the framework to deliver a stable and sustainable financial position over the medium-term, to enable the Council to achieve its strategic objectives and to support the preparation of the 2018/19 budget.

3 STRATEGY REVIEW

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

3.1.1 Central Government Funding

In recent years, local government has weathered significant cuts in funding coupled with additional risk and responsibility balanced by some increased flexibility particularly around the level of reliefs, discounts or exemptions awarded. The majority of grants are now provided without being ring-fenced for specific uses, allowing greater flexibility at a local level.

A number of grants have been subsumed into the Council's overall funding level, which continues to reduce in total, with Revenue Support Grant disappearing altogether in 2019/20.

3.1.2 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 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.

However, the fall of the Local Government Finance Bill due to the legislative workload created by the UK's decision to leave the European Union mean that elements of the new scheme requiring legislative change will be delayed. Meanwhile, work is continuing on the Fair Funding Review and the expansion of 100% Business Rate pilots.

3.1.3 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. Further reforms are planned.

3.1.4 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 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.

3.1.5 The 2018/19 Local Government Finance Settlement – Technical Consultation paper

On the 14th September 2017, DCLG published a technical consultation paper on the 2018/19 Local Government Finance Settlement, outlining

- 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

3.1.6 Treasury Management

Cabinet considered a number of treasury management issues including the forecast for interest rates, the expected level of investment holdings and the cost of borrowing over the medium-term and consultation on changes to the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management and Prudential Codes of Practice.

In particular, the Cabinet considered the potential for government measures to restrict the ability of Councils to invest in commercial property and the consequential effect on its ability to raise income to offset any future funding gap.

3.1.7 Level of Reserves

Cabinet considered the level of reserves to 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.

3.1.8 Other factors

Cabinet considered risks around loss of income and chargeable services, increasing demand for services, the effect of Welfare Reform and other potential legislative changes, the potential impact for local services from budget proposals being considered by Hampshire County Council and the financial implications of the UK's decision to leave the European Union.

4 MEDIUM-TERM FINANCIAL FORECAST

4.1 The updated Revenue forecast for the period 2017/18 – 2020/21 shows a funding gap of £2.2m over the medium-term. The forecast is based on the estimated outturn position reported to Cabinet in 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. It also contains a number of assumptions such as inflation, pay awards, and increases in both the tax base for Council Tax and the charge for Council Tax.

4.2 This forecast provides a high-level indicator of the direction of travel for the Council's finances over the medium-term and should not be taken as a detailed budget proposal. Cabinet will make recommendations for the 2018/19 budget later in the financial year for consideration by Council in February 2018.

4.3 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.

4.4 The 8-point plan is a fluid one, with new schemes coming forward as current projects are delivered and estimates revised as business cases are developed. The current projections show that the funding gap will largely be achieved over the medium-term but focus needs to be maintained on delivery, particularly if we are to meet the challenging requirement for 2019/20 and beyond.

4.5 The Capital Programme for 2017/18 – 2020/21 concentrates on four key areas – asset improvement, invest to save projects, regeneration schemes and support to housing such as Disabled Facility Grants and grants to Registered Social Landlords.

4.6 Rushmoor’s capital receipts reserve was just £5.9m at the start of 2017/18 and substantial borrowing will be required in the future to meet the ambitious capital programme, while always considering the affordability of borrowing costs within the Council’s revenue budget.

5 CONCLUSIONS

5.1 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.

5.2 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.

5.3 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.

5.4 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.

5.5 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.

6 RECOMMENDATIONS

6.1 It is recommended that Council approve the Medium-Term Financial Strategy 2017/18 – 2020/21 as set out in Appendix A.

P.G. TAYLOR
CABINET MEMBER FOR CORPORATE SERVICES

APPENDIX A

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.