ANNEX 1

COUNCIL MEETING – 6TH OCTOBER, 2016

AGENDA ITEM NO. 5

MEDIUM TERM FINANCIAL STRATEGY 2016/17 – 2019/20

A report from the meeting of the Cabinet held on 20th September, 2016.

1. INTRODUCTION

1.1 This report follows consideration by Cabinet of the Medium Term Financial Strategy, in report FIN1619. 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 2016/17 – 2019/20 to Council for approval.

2. BACKGROUND

2.1 The existing financial strategy has served the Council well in supporting financial planning over the medium-term. It is closely aligned with, and supports, the 8-point plan for achievement of financial 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:

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 general Revenue Support Grant which has been falling dramatically and will be phased out over the medium-term.

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. 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.

3.1.3 New Homes Bonus

We are still awaiting the results of the consultation on changes to New Homes Bonus (NHB), which closed in March 2016. While the current financial forecast takes into account a proposed reduction of £800m from the total cost of NHB 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 as set out in the consultation.

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 the offer of a multi-year settlement. 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.

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.

3.1.5 <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.

3.1.6 <u>Interest rates</u>

Cabinet considered the forecast for continued low interest rates and its impact on council investments and the cost of borrowing.

3.1.7 <u>Level of Reserves</u>

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 <u>Devolution</u>

Various models of local government reorganisation across Hampshire were considered but the outcomes are as yet too uncertain to build into our financial forecasting.

3.1.9 <u>Other factors</u>

Cabinet considered risks around loss of income and chargeable services, increasing demand for services, the effect of Welfare Reform and other potential legislative changes 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 2016/17 – 2019/20 shows a funding gap of £3.4m over the medium-term. The forecast is based on the estimated outturn position reported to Cabinet at Quarter 1, the latest projections for business rates income and grant figures derived from the multi-year settlement offer. 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. Recommendations for the 2017/18 budget will be made by Cabinet later in the financial year for consideration by Council in February 2017.

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 2017/18.

4.5 The Capital Programme for 2016/17 – 2019/20 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.

4.6 Rushmoor's capital receipts reserve 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.

4.7 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.

5 CONCLUSIONS

5.1 The financial strategy as set out at Appendix A sets a framework for managing the Council's finances over the medium-term.

5.2 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.

5.3 The 8-Point Plan will continue to 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 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.

5.5 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.

5.6 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.

5.7 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.

6 RECOMMENDATIONS

6.1 It is recommended that Council approve the Medium-Term Financial Strategy 2016/17 – 2019/20 as set out in Appendix A.

P.G. TAYLOR
CABINET MEMBER FOR CORPORATE 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.