

1. **MEDIUM TERM FINANCIAL STRATEGY 2018/19 TO 2022/23**

**Submitted by:** Executive Director – Resources and Support Services

**Portfolio:** Finance IT and Customer

**Ward(s) affected:** All

**Purpose of the Report**

To provide an update on the financial strategy for the Council over the next five years in the light of the national and local financial situation and taking account of the Council's priorities.

**Recommendations**

- (a) To approve the update to the Medium Term Financial Strategy for 2018/19 to 2022/23.

**Reasons**

The Medium Term Financial Strategy underpins the whole financial planning structure of the Authority. It is closely aligned to the Council Plan and focuses on targeting its financial resources in line with its stated aims and objectives.

1. **Background**

- 1.1 The Borough Council is committed to delivering high quality services. Integral to this ambition is the need to effectively target its financial resources in line with its stated aims and objectives.
- 1.2 The Medium Term Financial Strategy will be the main vehicle in assessing the Council's financial position, ensuring efficiency in service delivery and targeting resources to agreed priority areas.
- 1.3 In the 2016/17 provisional local government finance settlement, the government stated that it would offer any Council that wishes to take it up, a four-year funding settlement for Revenue Support Grant up to and including 2019/20.
- 1.4 To take advantage of this offer, the Council submitted an efficiency plan to the Government during October 2016, the cornerstone of which, for the Council, is the Medium Term Financial Strategy setting out what the Council intends to do to address the challenge of financial sustainability and where it hopes to be at the end of the period.
- 1.5 It follows that the Council's efficiency plan, as part of its Medium Term Financial Strategy, has clear links to the Council Plan and where the authority is involved in key partnerships, it also references ongoing and planned transformation projects and programmes that will enable the Council to reduce its costs or generate additional income locally.

2. **Issues**

- 2.1 Local government in general and district councils in particular continue to face the prospect of operating within a severely challenging financial environment. With further large decreases in general government funding confirmed and anticipated, the Council must review the services that it provides and its approach to value for money.

- 2.2 Central Government support is provided in the form of Revenue Support Grant (RSG) and a Baseline Funding amount related to retained Business Rates. The amounts of funding were notified to the Council in December 2016 for the financial years 2016/17 to 2019/20. This shows considerable reductions each year in Revenue Support Grant received by the Council.
- 2.3 Central Government has been consulting on changes to the local government finance system to pave the way for the implementation of 100 per cent business rates retention. For the purposes of the Medium Term Financial Strategy it has been assumed that the Council will be in a cost neutral position once the new system is implemented. However, there can be no guarantee that this will be the case. There was also no reference to business rates retention in the Queen's speech on 21<sup>st</sup> June 2017.
- 2.4 Housing is an important source of economic growth. For each new-build home, conversion and long-term empty home which has been brought back into use, the Council currently receives New Homes Bonus Grant which is based on the extra Council Tax revenue generated by these homes. It is therefore both economically and financially important to support housing growth.
- 2.5 Following the outcome of the 2015 Spending Review Central Government consulted local authorities on a variety of options for increasing the focus of the New Homes Bonus on delivery of new homes and freeing up resources to be recycled within the local government settlement to support particular pressures, such as adult social care.
- 2.6 The consultation proposals that have been implemented include reductions in the number of years for which the Bonus is paid from the current 6 years to 4 years from 2017/18 onwards.
- 2.7 The purpose of the comprehensive five year Medium Term Financial Strategy is to predict likely budget totals if services are maintained at current levels, by projecting forward the different elements of the 2017/18 budget, such as employee pay or supplies and services, based on assumptions as to likely changes or specific pressures, such as pay increases or price increases or any agreed changes which will affect service levels.
- 2.8 It also illustrates how the Council Plan is driving the medium term financial plan over the next five years. Whilst standing on its own as a strategy, it is an integral part of the Council's overall planning process comprising service delivery plans and the Council Plan.
- 2.9 The Medium Term Financial Strategy identifies significant budgetary shortfalls over the next five years that will need addressing with robust financial and budget strategies. The amounts for each year are set out below:
- 2018/19 £1.535m
  - 2019/20 £1.497m
  - 2020/21 £0.894m
  - 2021/22 £0.606m
  - 2022/23 £0.433m

The document attached as an Appendix shows how these amounts arise. It is not intended to reproduce the whole of the Medium Term Financial Strategy document this year, but for reference last year's document can be accessed via the following link <https://www.newcastle-staffs.gov.uk/sites/default/files/IMCE/YourCouncil/Accounts/201718%20Medium%20Term%20Financial%20Strategy.pdf>.

- 2.10 There have been a small number of changes made to the Medium Term Financial Strategy since its approval in September 2016, resulting in an increase of £0.311m in the funding "gap" to £1.535m for 2018/19. These are set out in the table below:

<b>Change</b>	<b>Amount (£'000's)</b>
Employee Increments and Pay Awards (permanent employment of previous Recycling contractor employees)	46
Business Rates (finalisation of transitional rate relief scheme)	5
Fees and Charges (change to inflationary increase assumption)	70
Summons Costs (shortfall in income due to increased collection rates of Council Tax). The collection rates have increased in recent years. This means that fewer residents are being taken to court for non-payment and therefore less income is being received in respect of the costs that the Council charges for a summons. Although this will be offset by savings in court costs incurred by the Council, it is unable to recover the contributions to its fixed overheads e.g. the costs associated with ICT systems and accommodation. Although the Council is achieving higher collection rates, there is only a marginal financial benefit as it only retains 12% of the amount collected as the other 88% is collected on behalf of its precepting authorities. In addition, with interest rates being so low the Council is gaining very little from the cash being in the bank earlier.	100
Elections (reinstatement of budget for one off saving in 2017/18)	90
<b>Total</b>	<b>311</b>

- 2.11 The Council Leader and the Portfolio Holder for Finance, IT and Customer are members of the Budget Review Group. The Budget Review Group will continue to oversee all aspects of the budget process, including service review and challenge, longer term planning, development of budget options including proposals for savings and increasing income, agreeing consultation arrangements and consideration of feedback and seeking to deliver service models that drive improvement to front-line services whilst offering value for money.
- 2.12 Further budget options developed by the Budget Review Group will be available for consideration by November/December and the Medium Term Financial Strategy and Efficiency Plan will be amended, where necessary, to take account of them. Cabinet will consider these proposals, in the form of a draft budget for 2018/19 at its meeting on 17 January, to enable this to be submitted to the Finance, Resources and Partnerships Scrutiny Committee on 24 January.
- 2.13 The overall budget timetable is as follows:

<b>Event</b>	<b>Body Affected</b>	<b>Date</b>
Scrutiny of MTFs	Finance Resources and Partnerships Scrutiny Committee	5 October
Consideration of MTFs and feedback from FRAPSC	Cabinet	18 October
Initial budget strategy and savings options	Finance Resources and Partnerships Scrutiny Committee	27 November
Draft budget proposals including options approved	Cabinet	17 January
Scrutiny of draft budget	Finance Resources and Partnerships Scrutiny Committee	24 January
Budget proposals recommended for approval by Full Council	Cabinet	7 February
Full Council to approve budget	Full Council	21 February

2.14 This report was considered by the Finance Resources and Partnerships Scrutiny Committee at their meeting on 5 October 2017. They requested that further explanation regarding the shortfall in summons costs be included in the report. This has been included in the table under paragraph 2.10.

3. **Proposals**

3.1 That Members approve the update to the Medium Term Financial Strategy for 2018/19 - 2022/23.

4. **Reasons for Preferred Solution**

4.1 Without a Medium Term Financial Strategy and Efficiency Plan it would be difficult to demonstrate the alignment of resources with the Council Plan. It is also the main vehicle for assessing the Council's position, ensuring efficiency in service delivery and targeting resources to agreed priorities.

5. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

5.1 The Medium Term Financial Strategy and Efficiency Plan identifies the resources to deliver the corporate priorities of the Authority linked to expected outcomes.

6. **Legal and Statutory Implications**

6.1 The Medium Term Financial Strategy and Efficiency Plan is not a statutory document but it is considered best practice.

7. **Equality Impact Assessment**

7.1 Differential equality impact issues will be identified against the key strategies, policies and functions of the Council and will be considered in producing future service improvements, which will then be reflected within the Council's budgets.

8. **Financial and Resource Implications**

8.1 The Medium Term Financial Strategy identifies future years' shortfalls in financial resources which will need to be addressed as part of the Council's budget strategies, including the Efficiency Plan.

9. **Major Risks**

9.1 Section 25 of the Local Government Act 2003 places a duty on the Chief Finance Officer to report on the robustness of the budget. The main risks to the budget include:

- Spending in excess of the budget
- Income falling short of the budget
- Actuals not being in line with the assumptions made e.g. if the pay award was above 1% and not funded by Central Government. In respect of the Borough Council, a 1% pay rise is equivalent to approximately £150,000 after taking account of national insurance and superannuation
- Unforeseen elements, e.g. changes in interest rates

9.2 Such risks require regular and careful monitoring and it is essential that the council has sufficient reserves to call on if required, e.g. the council has a general fund balance of £1.20 million and a minimum balance of £0.100m in the Contingency Reserve. In previous years the Chief Finance Officer has believed that the assurance required under Section 25 can be given

and, with careful budget planning, robust monitoring and adequate level of reserves, there should be no reasons to alter that view.

10. **List of Appendices**

Appendix - Medium Term Financial Strategy Update 2018/19 to 2022/23.