Medium Term Financial Strategy 2014/15 to 2018/19

NEWCASTLE UNDER LYME
BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2014 to 2019

CONTENTS

MEDIUM TERM FINANCIAL STRATEGY 2014 to 2019

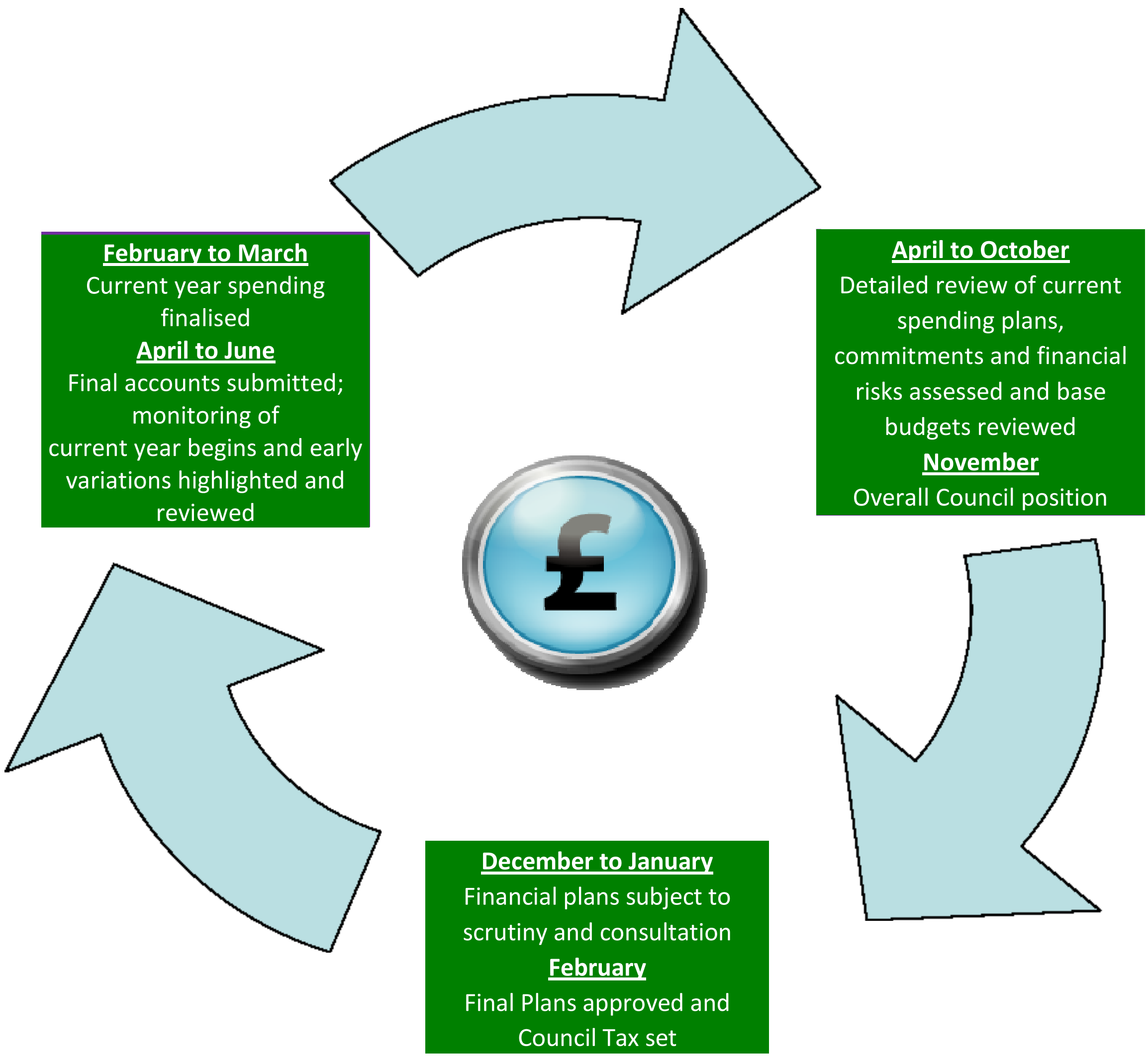
1. INTRODUCTION

1.1 This document provides details of the Council's medium term financial plans and projected financial position to 2019.

1.2 It sets out how the Council spends the money it receives from the residents and businesses of Newcastle-under-Lyme and Central Government, to provide services and to meet the priorities identified in the Council's Council Plan.

1.3 The formulation of this medium term strategy is part of the wider financial strategy and framework at the Council. Financial planning is an on-going process and this strategy is reviewed and updated on a regular basis.

The Annual Financial Cycle



A Longer-Term View

1.4 The Council plans its finances over a 5-year rolling programme. This longer-term view is designed to highlight at an early stage where the Council may have financial challenges and the level of resources it is likely to have available beyond the current financial year.

1.5 This helps to identify future issues in order that a timely and planned approach can be taken to address a shortfall in resources, a reprioritisation of spending or indeed where additional resources are available, where they should be invested.

The Budget Review Group

1.6 A Budget Review Group was established to ensure that the budget setting process consults all interested parties in a transparent manner. The Budget Review Group is chaired by the Cabinet Portfolio Holder for Finance and Resources. The Council Leader is a member of the group, together with the Chief Executive, Executive Director of Resources and Support Services and other appropriate finance and corporate support officers.

1.7 The remit of the group is to oversee all aspects of the budget process, including service review and challenge, longer term planning, development of budget options, agreeing consultation arrangements and consideration of feedback and seeking to deliver service models that drive improvements to front line services whilst offering value for money.

The Council plans its finances over a 5-year rolling programme. This longer-term view is designed to highlight at an early stage where the Council may have financial challenges and the level of resources it is likely to have available beyond the current financial year.

The Council Plan

1.8 The Council Plan describes the key actions that the Council will take over the next three years in order to create a borough that is prosperous, clean, healthy and safe. It sets out the Council's priorities and focuses on delivering these and ensuring that we continue to deliver high quality services for the Council's customers and bring real improvements in services for all in the Borough.

1.9 The Plan is updated annually to ensure that the Council's corporate objectives and priorities for action are helping to achieve the Council's Vision and reflect community priorities in the services that it provides.

1.10 In these very challenging times, the Council continues to have its funding reduced by Central Government and legislative changes to the responsibilities of local council's means there will be some tough decisions ahead. For these reasons alone it is important that we use resources prudently and effectively and review that way in which we do things and consider what is important for the borough. There is thus a clear and direct link to the Medium Term Financial Strategy (MTFS) from the Council Plan.

The Council's Role

1.11 The Council wants Newcastle-under-Lyme to be a borough in which people are proud to live, work, visit and do business. Moreover, it is important that the council be an open and transparent organisation which is accountable to local people and which, through co-operation with partners, will work together to improve where we all live. By trying to deliver better services and focused on the needs of local people, the council's aim is to create an organisation which is responsive and in touch with the people it serves. Consequently, the Council's Vision is:

"To create a borough that is prosperous, clean, healthy and safe"

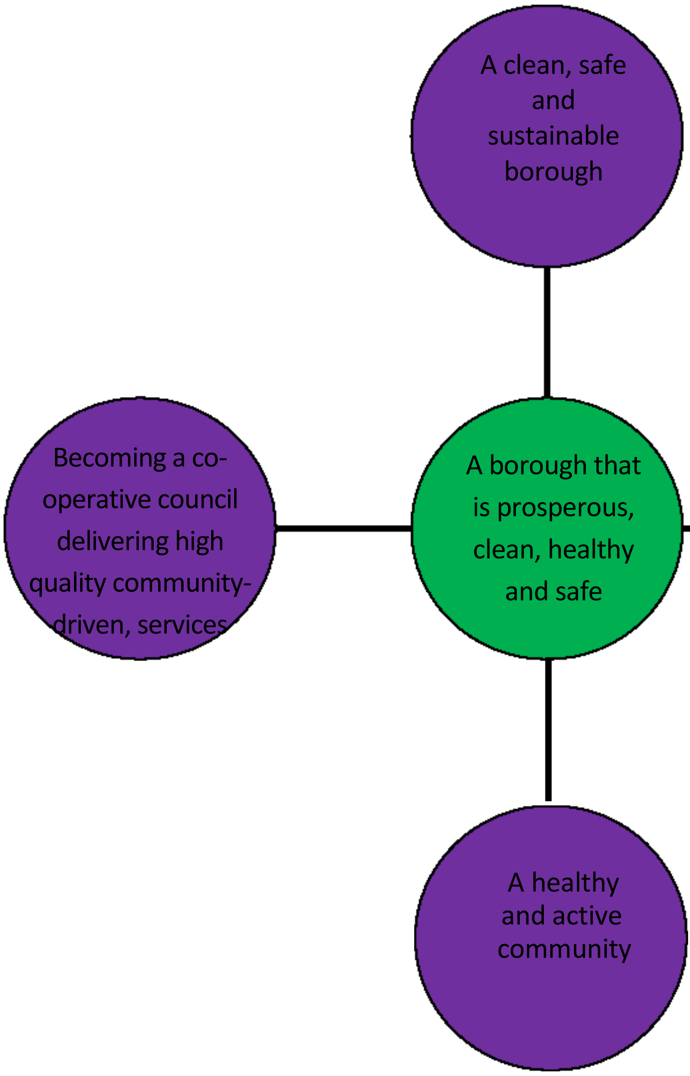
Priorities and Outcomes

1.12 In order to deliver this vision, the Council has developed 4 "priorities" under which there are a series of outcomes and activities. These priorities and outcomes are reviewed and monitored on an annual basis. Progress against targets is reported to Cabinet and Transformation and Resources Overview and Scrutiny Committee.

1.13 The full Plan with targets for 2013/14 to 2015/16 can be accessed on the Council's web site at: www.newcastle-staffs.gov.uk

Priorities

1.14 Effectively, the Plan covers all aspects of life in all areas of the borough.



- **A clean, safe and sustainable borough** – To improve the environment so that everyone can enjoy our safe, sustainable and healthy borough.

- **A borough of opportunity** – To work with our partners to maximise investment and encourage enterprise and employment – generating activities that will create opportunities for improving the wealth, prosperity and housing choices of our residents.

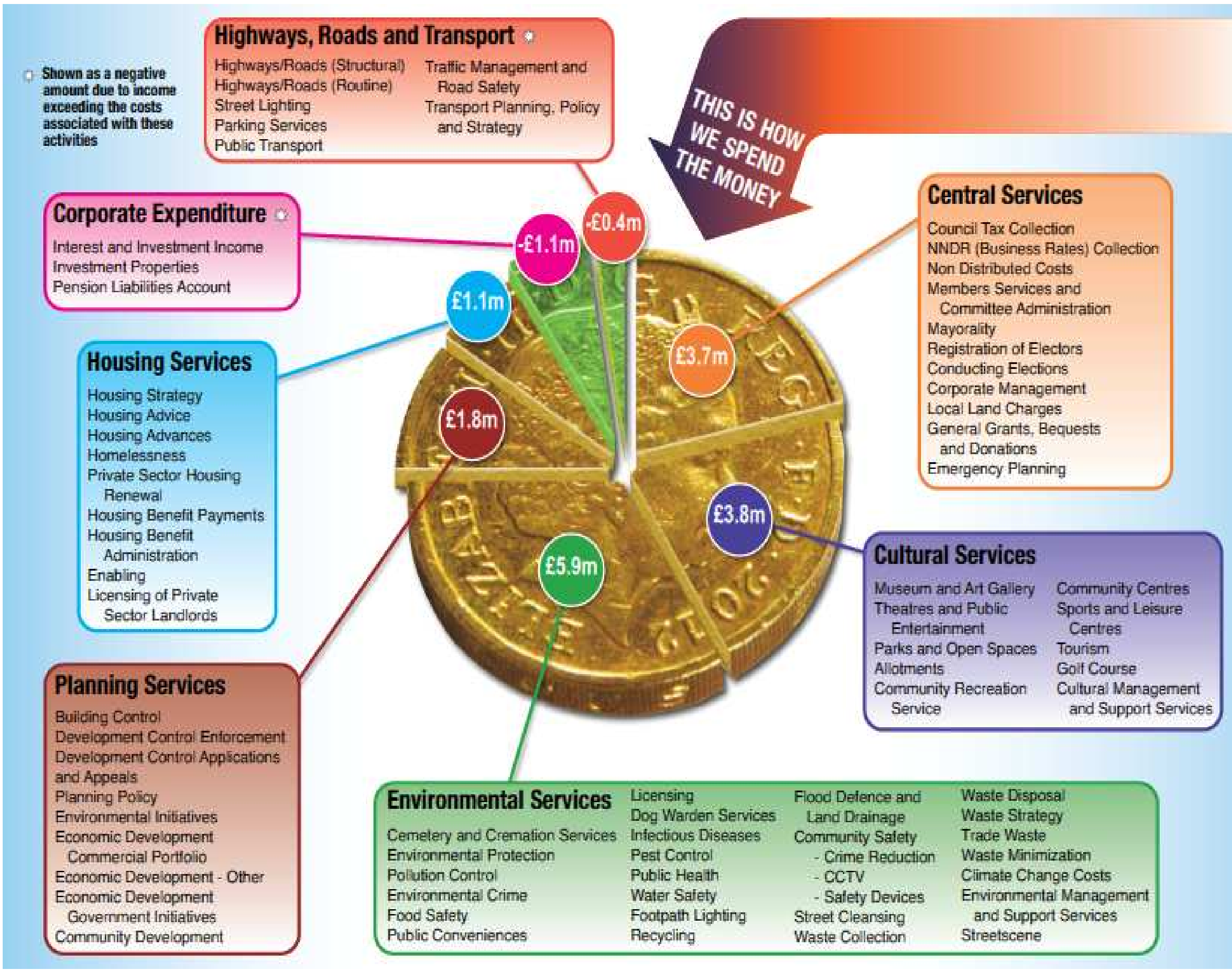
- **A healthy and active community** – To work with partners to make sure residents and visitors are able to access a range of facilities and support activities that will enable them to improve their health and quality of life.

- **Becoming a co-operative council which delivers high quality, community-driven, services** – Newcastle-under-Lyme Borough Council is working towards being a co-operative council which means we are working together with our residents, partners and local organisations to collectively deliver the best we can using resources we have.

Links with the Medium Term Financial Strategy

1.15 The financial planning framework is integrated with the corporate planning process. The Council Plan aims to identify the specific services and issues as to where the Council should prioritise its resources and the Council's budgetary plans reflect this.

1.16 The net revenue budget for 2013/14 has been allocated across services provided as shown in the chart below.



Links to other strategies and plans

1.17 The MTFS has links to a number of other Council and wider community strategies and plans. Where these have financial consequences for the Council, these are reflected in the MTFS.

The Council has three main strategies linked to its priorities:

- Economic Development Strategy
- Health and Wellbeing Strategy (emerging)
- Stronger and Safer Communities Strategy

Others which have a particularly significant input are:

Capital strategy and capital programme

1.18 The Capital Strategy sets out how the Council proposes to deploy its capital resources in order to assist it to achieve its corporate and service objectives. It also takes into account the resources which are likely to be available to the Council to fund capital investment and the effect of that investment on the Council's revenue budget. The Council's detailed capital investment plan is contained in its Approved Capital Programme. The current programme was approved by Full Council on 27 February 2013. This programme provides for £5.4 million of investment during 2013/14 in projects across all of the Council's priority areas.

1.19 The Capital Strategy has been prepared against a background of unprecedented reductions in funding provided to local authorities by central government and its agencies, arising from the need to restrain public expenditure owing to the ongoing economic recession and to rebalance public finances. At the same time, the Council's own resources available to finance capital projects are running out and will need replenishing before any substantial further capital investments can be made. Whilst the Council has benefited from an ability to recycle income derived from the disposal of land and property over many years, a more focused programme of asset disposals would be required to counteract the effects of reduced external finance.

1.20 The Council is presently debt free, having no long term loans outstanding. However, if further capital receipts do not materialise borrowing may be the only option to finance proposed capital expenditure in future years. This will have an effect on the general fund revenue account through financing charges and reduced investment income.

Asset management strategy

1.21 The asset management strategy encapsulates the Council's response to national policies and guidelines; it sets out the processes for the strategic management of the Council's property assets in order to ensure the best use of assets to meet corporate objectives in an efficient and effective manner. These processes resonate with the Capital Strategy and in turn may result in projects being included in the capital programme.

1.22 Through a planned and ongoing review of the asset register, against current andanticipated usage, disposal of assets will provide investment into the Council's capital programme. In parallel the Council will seek partner contributions (for example through external grants, partner organisation use of Council assets to contribute to revenue streams and joint venture opportunities).

Treasury management strategy

1.23 This is approved annually and sets out the Council's strategy for investment of its funds. The investment strategy, together with the prevailing market conditions in relation to interest rates and counterparty security will be the major factor in determining the return which is obtained on investments. Interest on investments is a source of income in the revenue budget.

Human resources strategy and workforce development plan

1.24 The Human Resources Strategy provides the strategic linkages in people performance and management to enable the Council to meet the Council Plan objectives. The Workforce Development Plan sets out how the Council will develop the skills and capacity of its staff in line with the Human Resources Strategy. Where there are costs associated with this, these will be included in the MTFS.

Charging policy

1.25 The policy sets out what the Council intends to achieve through the charges it makes and the criteria which it will use to determine the level of charge for individual services. The annually approved scale of fees and charges is compiled in line with the principles set out in the policy. Income from fees and charges comprises a significant proportion of the income included in the revenue budget.

Reserves and balances strategy

1.26 The Council's Reserves and Balances Strategy indicates that, following a risk assessment, the minimum prudent level of general fund balance to hold is £1.2 million and that there should also be a contingency reserve of £100,000. Current indicators are that this strategy will be delivered.

Departmental service delivery plans

1.27 Service Plans are an integral part of the Council's planning process and demonstrate the actions and targets of each directorate in order to achieve the Council's corporate objectives and priorities.

Other strategies which may influence the MTFS

1.28 There are a number of other Council strategies whose contents may have implications for the MTFS:

- Procurement Strategy
- North Staffs Green Spaces Strategy
- Private Sector Housing Renewal Strategy
- Housing Strategy
- Arts and Cultural Strategy
- Energy Efficiency and Climate Change Strategy and Carbon Reduction Plan
- North Staffs Core Spatial Strategy
- Saved Local Plan Policies (emerging)
- Co-operative Council Strategy
- Sustainable Community Strategy

2. THE COUNCIL'S OVERALL FINANCIAL POSITION

2.1 The Council's overall financial position has been relatively strong over recent years, this has arisen both from prudent financial management, together with a programme of efficiency savings from transformation, procurement, service delivery and the generation of additional income. These savings have helped to sustain the Council's financial position against a background of reducing resources.

The National Context

2.2 Similar to other areas of the Public Sector, local authorities have had to lower costs as their main source of funding, i.e. Central Government Grant has reduced by 45 per cent since 2010. This is a result of the Government's Policy to address the national budget deficit and this is expected to be on-going over the life of this Medium Term Financial Strategy.

2.3 Central government support for local authorities revenue budgets is provided in the form of Revenue Support Grant (RSG) plus a Baseline Funding amount relating to Business Rates. The amounts to be paid to local authorities as a whole and to individual authorities are announced via the annual local government finance settlement, provisional figures being announced usually in December and final ones in January.

2.4 The Local Government Finance Act 2012 introduced business rate retention for local authorities and for the localisation of council tax benefit, i.e. for local authorities to assume responsibility for devising schemes for making payments to claimants, instead of acting as agents for the Department of Work and Pensions.

2.5 The revised arrangements took effect from 1st April 2013. The Council still bill and collect business rates, but instead of contributing all business rates into the central pool and receiving formula grant plus a baseline funding amount, a proportion of the business rates is retained by the Council.

2.6 A baseline level of funding was set so that at the start of the system, the amount received is equivalent to what it would have been under the previous system, less the reductions arising from the Local Government Resources Review. From then on the Council's funding may grow if the business rates base in Newcastle-under-Lyme grows, but could also fall if the business rate base declines.

Compilation of the MTFS

Principles

2.7 The MTFS considers changes to the 2013/14 base budget by breaking this budget down into its subjective cost and income components; pay, pensions, utilities, fuel, supplies and services, investment income, income from fees and charges, etc. An assessment is then made, in respect of each of these components, of the factors which might affect their cost or the amount of income receivable and whether there is likely to be a change in this cost or income, and if so how much it will amount to, in each year over the five year period. Also taken into consideration are any additional pressures which may apply to services over the five year period, plus any savings which have been identified and agreed or approved investments in services over the five years. The MTFS therefore shows the changes from the initial 2013/14 base budget through to 2018/19, demonstrating the variances between each of the years.

Base budget components assessed for cost variances

2.8 These are set out in detail in section 2.12, which shows by how much in monetary terms the estimated budget for each of the five years varies by comparison to the previous year on account of these factors alone. Also shown are the assumptions about price changes that have been made in respect of each component. In summary, the components examined and the factors which were taken into account to assess the changes were:

- Levels of central government funding (estimated) as referred to in the National Context section of the strategy (page 8);
- Pay awards and incremental pay increases;
- National Insurance increases, linked to increased pay;
- Superannuation increases, both to take account of increased pay and changes in contributions to the pension fund;
- Energy costs, based on advice from the Council's Procurement Officer;
- Business rates increases on Council properties;
- Fuel for vehicles, based on advice from the Council's Procurement Officer and Freight Transport Association and allowing for changes to fleet numbers and in vehicle types;
- General inflation in relation to supplies and services and contract increases;
- Levels of grants and contributions paid by the Council to external bodies;
- Increase in income from customer receipts;
- Changes in specific government grants receivable;
- Changes in amounts of investment income receivable, both as a result of changes in forecasted interest rates and changes in relation to the capital sums available for investment;
- Contributions from reserves and ongoing effects of previous savings exercises or investments associated with them

The following key assumptions have been made:

- Full provision for known pay increases from incremental progression.
- A 1 per cent pay award in 2014/15 and 2 per cent thereafter.
- Central Government funding will decrease by 15.5 per cent in 2014/15 with a further 15 per cent reduction in 2015/16 based on indicative figures from the Department for Communities and Local Government (DCLG) and further reductions of 5 per cent thereafter. Funding for 2014/15 will not be confirmed until the local government finance settlement in December.
- A 3.2 per cent increase in transport fuel in each of the five years, as per the forecast provided by the Freight Transport Association.
- An increase in pension contributions (source - Staffordshire County Council).
- An increase of general inflation on certain supplies and services.
- Energy costs are based on an assessment by the Council's energy management advisors and the Council's Facilities Manager.
- Increases in line with inflation for most income heads.

- Interest rates based on forecasts supplied by the Council's treasury management advisors.
- Investment income takes account of the latest capital programme expenditure forecasts.

2.9 Whilst all of these are important and of some significance, a sensitivity analysis has been undertaken on the following four issues for which the main findings are:

- The level of central government funding which is received
  These support a large per cent of the budget so have a major impact. A variation of 1 per cent in the level of external support via these two sources would amount to £60,000.

- How movements in interest rates will affect the Borough Council
  The Council has no external debt at the current time but does generate income from its investment portfolio. The Bank of England base rate is currently 0.50 per cent. It is estimated that a change of 0.50 per cent in the interest levels on the Council's investments would lead to £33,000 (based on anticipated investment levels) more or less interest.

- How changes in nationally agreed pay awards will impact
  There is provision for a 1 per cent pay award in 2014/15 and a 2 per cent thereafter. With a pay bill (excluding National Insurance and Superannuation) of £12.4m, a change of 0.50 per cent would save or cost £62,000.

- How actuarial changes in the pension scheme will affect the Council
  Pension costs are currently 24.7 per cent of salaries for all of those staff in the pension scheme. Over the next five years forecast increases have been factored in. A variation of 1 per cent would save or cost £111,000.

Council Priorities

2.10 A number of Council priorities have been provided for in the formulation of the MTFS, these include:

- ***Town Centre Partnership***

  The development/improvement of the two main town centres (Newcastle and Kidsgrove) has been identified as a clear priority. In order to demonstrate that the Council is able to support and develop the town centres as vibrant places where people want to visit, work, invest and shop, the Council will seek to work in partnership with local businesses to develop an action plan for improving the economic prospects of the town centres.

- ***Apprenticeships***

  In order to improve the opportunities and training prospects of young people in the Borough, the Council is providing further apprenticeship opportunities through the establishment of a 'shared apprenticeship scheme' in partnership with other local organisations within both the public and private sectors.

- ***Home Security Support for Vulnerable Residents***

  Helping vulnerable people, including the elderly is a key priority of the Council. Community safety and fear of crime also remain an important theme for the council and partner agencies. In relation to home security there are two key issues: firstly the standard/condition of the property and secondly, the likelihood of the resident being targeted by a criminal. The Council seeks to address these issues by responding to resident requests for assistance and proactively targeting areas high crime in partnership with the Police.

Assessment of what the MTFS means

2.11 The implications of the MTFS forecast will be taken into consideration in the preparation of detailed budgets for 2014/15 and give guideline figures for the budgets for the following four financial years. Details of the timetable, which is being followed, are shown later.

2.12 The summarised MTFS illustrates that the Council would have the following shortfalls over the next five years which need to be addressed.

- £2.170m in 2014/15
- £1.934m in 2015/16
- £1.390m in 2016/17
- £857,000 in 2017/18
- £926,000 in 2018/19

2.13 As a percentage of the net budget, the potential shortfall in 2014/15 represents 15 per cent of the current year's net revenue budget. In recent years, the shortfalls have been met by a combination of efficiency measures, better procurement, increased income generation, council tax increases, support from reserves, etc. The continued severity of Central Government funding reductions together with other pressures outlined will mean that together with a continuation of the above strategies, more radical solutions will need to be formulated e.g. shared services, alternative service delivery models and reduction in services.

Budget Strategy 2014/15

2.14 The shortfall identified for 2014/15 needs to be managed so that a balanced budget is compiled with spending matched with resources.

2.15 The potential savings, efficiencies and areas of increased income identified for 2014/15 currently include:

- Procurement savings resulting from the negotiation of contracts and annual uplifts incurred, also from determining the actual need for goods, works or services and through ensuring that the Council commissions and procures quality services and supplies, as cost effectively as possible
- Additional areas of income generation including areas where services are performing above their targets, a review of current fees and charges in comparison to other authorities and competitors and a review of areas where we provide a service for free or have the potential to provide a charge for service together with new initiatives
- Staffing efficiencies including a review of overtime, a review of vacant posts within the Council and the need to recruit to these posts and a number of service restructures following the departures of the Heads of Service
- Good housekeeping efficiencies including a comprehensive review of services expenditure budgets that are under utilised and reductions in fees that are required to be paid to external bodies
- Better use of assets including a review of their usage or potential usage and the costs associated with the continued usage or occupation of these assets
- Alternative sources of funding, e.g. New Homes Bonus contributions, Business Rates Retention Scheme and other grants.

3. TIMETABLE AND PROCEDURE

3.1 A Budget Review Group was established in 2012, chaired by the Cabinet Portfolio Holder for Finance and Resources. The Council Leader is a member of the group, together with the Chief Executive, Executive Director of Resources and Support Services and other appropriate finance and corporate support officers.

3.2 The remit of the group is to oversee all aspects of the budget process, including service review and challenge, longer term planning, development of budget options, 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.

3.3 A service challenge process was conducted by the Budget Review Group in 2012 with a further process planned for 2014. All services are potentially subject to challenge but the process particularly concentrates on those with the potential to deliver significant improvements in the priority areas. Heads of Service put forward options for improved service delivery and efficiency savings together with suggestions for 'invest to save' proposals whereby continuing increased efficiency can be obtained in return for a proportionally modest initial outlay.

3.4 The results of last years challenge process have formed the basis of the current years budget and the formulation and preparation of the 2014/15 budget.

3.5 The consultation process seeks to gain views through a variety of means, both by face to face contact and electronically, from a broad range of interested parties.

3.6 The Budget Review Group will also consider the capital programme for 2014/15 and beyond and the resources available to finance it. There will be the opportunity for members to review and comment on this during the scrutiny process.

3.7 The budget timetable as regards member involvement and the completion of key stages in the process is set out in the table below:

Event	Body Affected	Date
Budget and local authority finance training	All members	September/October
Consultation Process	TROSC*/Cabinet	September
Consideration of MTFS	Cabinet	16 October
Consideration of MTFS	TROSC*	6 November
Public Consultation	Interested Parties	October/ November
Review of consultation feedback and initial budget strategy and savings options	TROSC*	December
Review of consultation feedback (Chair of TROSC to give verbal feedback at the Cabinet meeting)	Cabinet	11 December
Scrutiny Café	All members	14 January
Draft Budget proposals including options approved	Cabinet	15 January
Scrutiny of draft budget	TROSC*	22 January
Budget proposals recommended for approval by Full Council	Cabinet	5 February
Full Council to approve Budget	Full Council	26 February

* TROSC = Transformation & Resources Overview & Scrutiny Committee

4. RISK

Risk Statement

4.1 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 and unforeseen elements, e.g. changes in interest rates and budget strategies and savings that do not have robust plans.

4.2 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 £1.2 million. In previous years the Chief Finance Officer has believed that the assurances required under Section 25 can be given and, with careful budget planning, robust monitoring and an adequate level of reserves, there should be no reasons to alter that view.

Risk Analysis

4.3 The financing of local government is entering a period of substantial change. Several key risks have been identified which could have a potential impact upon the Council's projected financial position. These are summarised below.

Key Financial Risks

Collection Fund Balance – deficit accumulates which falls as a cost on the General Fund	New Local Council Tax Support Scheme reduces collection rates. Demand for support increases when resources are fixed. Local businesses decline and empty properties increase, reducing income.
Growth – now a key factor influencing levels of grant	Growth is curtailed reducing business rates income and other income streams from planning and development.
Budget Savings – need to find £1.9m on-going in 2015/16	They are not identified and implemented within the next year.
Budget Overspend	Unexpected costs On-going cost pressures and reducing income
General Economic Conditions	Higher price increases on fuel and utilities Interest rates affect investment returns and debt portfolio Income shortfalls

4.4 These risks are managed through a series of mitigation measures included in the financial planning and are monitored on an on-going basis via the Council's risk management process, the Budget Review Group and regular reports to Members.

5. THE COUNCIL'S FINANCIAL STRATEGY

5.1 The Council is committed to delivering high quality services and considerable progress has been made over the last year with significant improvements in performance indicators and positive feedback from external auditors. Integral to this ambition is the need to effectively target its financial resources in line with the priorities of the Council.

5.2 It is the Council's ambition to continue to substantially improve its service delivery over the next five years. Sound and effective financial planning has a vital role to play in ensuring that ambition is realised, through providing sufficient resources to enable the services that matter most to our citizens to be delivered and to respond to the increased demands placed upon the Council.

5.3 The current recession and the reductions in central government support to local authorities, particularly for second tier district councils such as Newcastle-under-Lyme, reinforces the need for sound financial planning, not just for the year immediately ahead (2014/15) but over the medium term as well.

5.4 To meet this need, the Medium Term Financial Strategy (MTFS) has been developed for a period spanning five years, from 2014/15 to 2018/19. The MTFS demonstrates alignment with the Council Plan and will be the main vehicle in assessing the Council's financial position, ensuring efficiency in service delivery and targeting resources via a transparent process to agreed priority areas. It illustrates how the Council Plan is driving the medium term financial plans for each block of services over the next five years.

5.5 It is a key document informing the 2014/15 budget process. The assumptions about future costs and income together with those relating to investment and efficiency savings will be incorporated in the 2014/15 budget and will account for the majority of the change in net spending between the 2014/15 budget and that for 2013/14. The indications given in the MTFS concerning the gap between future years' expenditure levels and available resources will enable the Council to draw up an informed strategy, following a public consultation process, that reflects the priorities of the Council, to bridge those shortfalls.

5.6 The MTFS will be used during 2013/14 as the basis for reviewing the Council's financial position. The assumptions contained in it will be regularly reviewed and amendments made to the plan, where necessary. If any consequences in terms of significant adverse budget variations become apparent, this information will be used to formulate an action plan to deal with the budget shortfall. Conversely, if a significant positive variance is indicated, and likely to persist, this knowledge will enable the Council to decide whether to use this to increase reserves or to reallocate some or all of it to additional investments in line with corporate priorities.

5.7 Whilst the MTFS stands on its own as a strategy, it is an integral part of the Council's overall planning process comprising service delivery plans, the Council Plan and the Borough's Sustainable Community Strategy.

The current recession and the reductions in central government support to local authorities reinforces the need for sound financial planning.

The Financial Framework

5.8 Within the overall strategy, a framework is effectively cascaded down and detailed in other plans and policy documents, as set out in the following table.

Medium Term Financial Strategy	**This document sets out the medium term financial plans of the Council.**
Treasury Management Strategy	**Setting out how cash and investments are managed. This is designed to ensure the security and liquidity of any council money invested.**
Financial Regulations	**Setting out the procedures to ensure that the use of finance is legal, properly authorised, reported and provides value for money. These are the detailed rules which are used by Council officers on a daily basis to govern their operations.**
Internal Audit Plan	**Setting out when fundamental financial and other systems will be reviewed over time to test the effectiveness of internal control. This Plan is approved and monitored by the Council's Audit and Risk Committee.**
Capital Strategy and Capital Programme	**Setting out how major investment is planned and managed and helps to deliver the Council's priorities.**
Asset Management Strategy	**Setting out the management of land and property and identifying assets for disposal.**

6. GOVERNMENT FUNDING FOR REVENUE PURPOSES

6.1 In various forms, the Council receives a substantial part of its funding from central government.

6.2 Besides receiving a general grant (Revenue Support Grant), it also receives funding through a New Homes Bonus and specific grants earmarked for certain services. The overall level of grant is reducing nationally, although allocations to the Council from the New Homes Bonus have increased over the last 3 years.

The Council's Financial Settlement 2014/15

The National Picture

6.3 On 1st April 2013, the national distribution of local authority funding changed significantly. The system moved away from being based on central funding allocation, to a model based on retaining a proportion of local business rates. However, nationally the Government will still control the overall level of resources for local authorities.

6.4 These resources are to continue to reduce following the Government's July Budget. Due to certain services receiving protection (Education and Social Services) the largest impact of the reductions is likely to fall on district councils. Core funding was reduced by an average of 6.8 per cent for district councils in 2013/14. A further reduction of 15.5 per cent is now planned in 2014/15, with indications that a further reduction of 15 per cent in 2015/16.

6.5 Newcastle-under-Lyme Borough Council will be in a position to partly offset these decreases through the Business Rates Retention Scheme and the New Homes Bonus. Overall however, it is likely that all councils will now see diminishing resources for the foreseeable future.

The national distribution of local authority funding changed significantly. The system moved away from being based on central funding allocation, to a model based on retaining a proportion of local business rates.

How the New System Works

6.6 Under the new system, a **start-up funding assessment** was established for each council. It is calculated broadly in the same way as Formula Grant was under the previous system.

6.7 This assessment is then split between Revenue Support Grant (RSG) and Business Rates Retention (BRR – a **Baseline Need**). Once set each year, the RSG element is guaranteed, whilst the BRR element is not.

6.8 Therefore, overall funding levels are not guaranteed; ultimately the level of business rates collected by councils during the year will determine a significant part of overall funding - the Baseline Need is only the starting point.

The Baseline

6.9 To fund the Baseline, councils had an expected level of National Domestic Rates (NNDR Income) to collect. This is based on the projected level of business rates to be collected nationally as determined by the Government.

6.10 50 per cent of this amount is paid over to the Government, with 20 per cent paid over to the County Council and the Fire Authority (combined) in two tier areas. The remaining 30 per cent is effectively the target business rates to be collected by the Council.

6.11 For councils with a need higher than their Baseline, a **Top Up grant** is paid and this will be fixed. Conversely, for councils with a need lower than their Baseline, a **Tariff** is paid to the Government. This funds the national redistribution mechanism.

6.12 Councils that see a higher level of NNDR income compared to their Baseline will be rewarded through the scheme as they will be able to retain an element of the associated increase in revenues. However, councils that have a lower level of NNDR income will see a decline in their resources and, subject to a safety net, will not be compensated.

A Damping Mechanism

6.13 The new scheme contains a mechanism to limit individual gains and losses. A **Safety Net** limits losses and this is funded through a Levy (or charge) on disproportionate gains.

6.14 The Safety Net applies when a council's income falls by more than 7.5 per cent from its original baseline funding level, set on transition to the new system on 1st April 2013; the level is then fixed and increased by inflation each year.

6.15 The Levy limits what councils can gain in cash terms for any given level of NNDR growth. This has been set at 1:1, meaning that a 1 per cent increase in NNDR growth cannot increase overall resources by more than 1 per cent, but subject to a limit of 50p in the pound.

6.16 The calculation is complicated, but does allow councils to gain from incremental growth even after paying a levy.

6.17 Where councils actually collect business rates at their NNDR target, the level of resources that they would receive (through retained business rates and RSG) will be their start-up funding assessment; i.e. they would neither gain nor lose. The Council is a member of the Stoke-on-Trent and Staffordshire Business Rates Pool, which enables it to retain more rates income than it otherwise would have done by avoiding payment of a levy on rates income growth to the government. It is anticipated that the Council will benefit from rates retention, although it is difficult to estimate precisely how much additional income it will be able to retain.

Reviewing the System

6.18 The Government intends that Baselines will be set until 2020, up rated each year for inflation. However, the Government reserve the power to review and if necessary reset the system in exceptional circumstances at anytime. However, they have indicated that a review will not occur within the first 3 years of the new system.

New Homes Bonus (NHB)

6.19 This was introduced in 2011/12 and will continue to be paid in the new system in addition to RSG and retained business rates.

6.20 Where authorities gain in NHB due to growth, RSG will be reduced. However, the overall system is designed to benefit those authorities who achieve residential growth (including new affordable housing) together with good management of empty properties.

6.21 Similar to RSG and retained business rates, the NHB is a flexible, unringfenced fund and is part of the support package that central government will continue to pay to local councils.

6.22 The New Homes Bonus is currently being consulted on by the Department for Communities and Local Government (DCLG). In Autumn 2012 Lord Heseltine published his report 'No Stone Unturned in Pursuit of Growth' which sets out the case for a reconfiguration of responsibilities for economic development between central government and Local Enterprise Partnerships, and between government and the private sector. The report recommended the creation of a single funding pot. The recent spending round announced the creation of £2 billion Local Growth Fund and that it would contain £400 million of New Homes Bonus funding, pooled locally at the Local Enterprise Partnership level to support economic growth priorities, including housing.

6.23 As a result of this report and the current consultation, the New Homes Bonus funding will be reduced from 2015/16 by approximately 35 per cent. Further details will be available once the consultation has been completed in respect of how this will affect individual local authorities.

7. COUNCIL TAXBASE AND COLLECTION FUND

7.1 The Council's taxbase represents the average "value" of the properties in its area as set against a standard band D property. For example a band D property is expressed as one whilst a lower value band A property is calculated as 6/9 of the band D. On the other hand, the highest value property is band H which is calculated at 18/9 of band D.

7.2 The calculation of the taxbase has an important effect on the level of council tax in that an increase in the taxbase (say, from new building) will mean that the amount to be raised is spread over more properties whilst a reduction (say, from demolitions) will mean that it has to be spread over fewer properties. For 2013/14 the taxbase was calculated at 34,361 properties.

7.3 The collection fund is the vehicle through which all council tax is collected. The Council makes an assumption as to the percentage of council tax which will be ultimately collected. That decision will be made in January 2014. If that target is not met then there will be a deficit which will have to be accounted for in the next financial year whilst if there is a surplus then this can be used to offset whatever council tax is levied in the next financial year.

7.4 Only a certain proportion of the overall council tax bill is attributable to the Council's services. The Council also collects the proportions due to other public bodies that provide services within Staffordshire. These are;

- **Staffordshire County Council** (Education, Social Services, Highways, Libraries, Waste Disposal and Trading Services)

- **Office of the Police and Crime Commissioner Staffordshire** (Day to Day Policing and Crime Prevention)

- **Staffordshire Fire and Rescue Service** (Fire Fighting and Accident Prevention)

- **Local Parishes** (Community Facilities)

7.5 The split of the overall bill for 2013/14 at Band D level is;

Overall Band D Council Tax	**2013 /14 £:p**
Newcastle-under-Lyme Borough Council	176.93
Staffordshire County Council	1,027.25
Office of the Police and Crime Commissioner Staffordshire	177.61
Staffordshire Fire and Rescue Service	67.64
Sub-total	**1,449.43**
Parish Council (Average)	19.57
TOTAL	**1,469.00**

7.6 Local Parish Councils set various rates that are additional to the Band D levels above for residents in those areas. There are 10 parished areas in the District and the Parish levy for 2013/14 at Band D ranges from £7.99 to £44.60.

8. Environmental footprint

8.1 One of the four priorities in the Council Plan is “A clean, safe and sustainable Borough” so it is clear that there is a wide understanding of the impact and implications of the Council’s policies on the environment and hence the need to develop and maintain a sustainable approach. In formulating the MTFS as a means of enabling the achievement of its priorities and to improve service delivery, it is essential that all staff, members and stakeholders are aware of the requirement to consider the environmental impact of their actions.

8.2 In response to such environmental issues the Council has prepared plans, most notably a Carbon Management Plan, which focus upon saving energy with a view to both saving costs and minimising our environmental footprint. The main three avenues of interest for achieving such efficiencies are around premises related energy saving measures, waste recycling and reducing vehicle fleet fuel consumption.

9. Procurement

9.1 The Council has an approved Procurement Strategy which encompasses every aspect of the purchasing process from determining the need for goods, works or services, to buying and delivery in order to help achieve the Council's key priorities and outputs.

9.2 The procurement role is to ensure the Council commissions and procures quality services and supplies, as cost effectively as possible. The Council must understand the market and seek to influence and develop it for the benefit of delivering low council tax. As part of this role all contracts that the Council currently has are to be reviewed in order to ensure that they are efficient and cost effective.

10. Equalities

10.1 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.

MEDIUM TERM FINANCIAL STRATEGY 2014 to 2019

Summary	2014/15	2015/16	2016/17	2017/18	2018/19	Notes
Changes to Base Budget	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	
Employees:						
▪ Incremental Increases	54	29	18	2	1	As per Payroll
▪ Pay Awards	121	246	251	257	262	1% increase in year 1 & 2% thereafter
▪ Superannuation Increases	262	256	239	221	209	As per Staffordshire County Council
▪ Vacancy Factor	72	70	69	83	88	2.5% in year 1 reducing by 0.5% each year
▪ National Insurance	13	11	446	18	19	Per incremental increases & pay awards plus additional 3.4% in 2016/17 re: the introduction of a single tier state pension
Premises (e.g. Business Rates)	20	20	21	21	22	Based on 2% increase
Transport (e.g. Fuel)	12	13	13	14	14	Based on 3.2% increase
Other Costs (e.g. General Inflation, Grants & Contributions)	73	77	81	82	84	General inflation on certain supplies & services
One Off Budget Items Removed 2013/14 Budget	225	0	0	0	0	Expenditure taken from/income added to 2014/15 budget for 1 year only e.g. elections
Investment Income	46	(73)	(50)	0	0	Based on forecast interest rates
New Homes Bonus	0	216	167	37	118	35% top slice as per DCLG consultation paper then affects drop out after 6 years (first allocated in 2011/12)
Government Grants	1,123	1,097	235	223	212	Settlement decreased by 15.5% in 2014/15 & 15% in 2015/16 & 5% thereafter
Council Tax Freeze Grant	0	70	0	0	0	A Council Tax freeze grant was given by Government in 2011/12 which was given until 2014/15 only.
Agreed Pressures (as part of 2013/14 budget process)	45	0	0	0	0	Revenue contribution to ICT Development Fund, Hepatitis B Vaccination Programme, Lone Working
New Pressures	200	0	0	0	0	Contingency and additional allocation to Revenue Investment Fund (RIF)
Fees & Charges & other Income	(96)	(98)	(100)	(101)	(103)	Increase based on 2% increase in 2014/15 & thereafter
TOTAL MTFS SHORTFALLS	**2,170**	**1,934**	**1,390**	**857**	**926**	