

## **ITEM 9                    Medium Term Financial Strategy 2017 - 2020**

Report of the Economic Portfolio Holder

### **Recommended:**

- 1.     That the Medium Term Financial Strategy (MTFS) for 2017/18 to 2019/20 attached as Annex 1 to the report be approved.**
- 2.     That the Medium Term Financial Forecast outlined in Appendix 3 of the strategy be noted.**

#### **SUMMARY:**

- This MTFS sets out the framework within which the 2017/18 budget will be prepared.
- It also sets out the Medium Term Financial Forecast for the General Fund Revenue Budget together with details of Revenue savings, which will form the basis of the 2017/18 budget.

### **1     Introduction**

- 1.1    The Constitution sets out the processes for preparing the Council's budget. The Cabinet is required to consult with Members and other Committees in formulating the budget proposals to be presented to Council.
- 1.2    The MTFS appended to this report sets out the key financial assumptions that have been made in producing the Medium Term Financial Forecast and sets out a proposed framework within which to work over the life of the plan.
- 1.3    It should be stressed that all of the options and assumptions in this report, relating to any potential budget changes, are for indicative planning purposes only. Final decisions on the overall Budget and Council Tax Level will not be made until February 2017 once the Local Government Settlement has been announced. These decisions can only be made by Full Council.

### **2     Budget Process**

- 2.1    The MTFS is attached as Annex 1 to this report. Pages 7 and 8 of this annex set out the timetable for the development of the MTFS and the detailed budget for 2017/18 starting in June and concluding with the approval of the budget and setting of the Council Tax for the coming year in February.

- 2.2 The development of the MTFs is dependent on a number of factors. Depending on the circumstances, it may be necessary to report more regularly (or less often) than the timetable sets out. Members will be kept fully informed on the progress of the budget throughout the process.
- 2.3 In previous years, the budget gap and reduction in Government funding has been estimated with a reasonable amount of confidence which has resulted in very robust financial planning. Localisation of business rates and of support for council tax have both introduced a level of funding risk that individual authorities have had to accept. Monitoring arrangements are now in place, but income and expenditure in these two areas of activity are extremely volatile and difficult to forecast. These issues are covered in more detail in the strategy itself, but it must be stressed that the figures presented here and in the strategy and budget forecast are based on very broad assumptions, which will need refining as more detail is released by the Government. One of the key areas surrounding the budget is the Local Government Finance Settlement, which is announced very late in the budget setting process. The final announcement is not expected to be made until January 2017, which makes forward planning very difficult.
- 2.4 Further complexity has been added this year by a raft of Government Consultations and external factors. These include:
- (a) “Self-sufficient local government: 100% business rate retention”;
  - (b) “Fair Funding Review: Call for evidence on Needs and Redistribution”;
  - (c) “New Homes Bonus: Sharpening the Incentive”;
  - (d) Revaluation of Business Rates from April 2017;
  - (e) Continuing delays to the implementation of Universal Credit;
  - (f) A new Government with new ministers;
  - (g) The impact of Brexit on public finances;
  - (h) The impact of Combined Authority proposals.

### **3 Medium Term Financial Strategy**

- 3.1 The Medium Term Financial Strategy (MTFS) complements the Council’s Corporate Plan and sets out a clear framework for financial decision making.
- 3.2 The Corporate Plan makes clear what the Council’s priorities are, and the MTFS sets out how the financial management process will contribute to delivering these priorities.
- 3.3 It is a detailed strategy that incorporates:
- the overall financial framework and principles that have been used in formulating the medium term financial position;

- the assumptions used in producing the detailed financial forecasts shown in appendices 2 - 6;
- a review of the Council's reserves;
- a comprehensive budget strategy (both revenue and capital) for the next three years.

3.4 The MTFS has been updated, but remains largely unchanged from the Strategy approved by Cabinet on 16 December, 2015.

#### **4 Revenue Pressures**

4.1 As part of the budget cycle, Heads of Service were asked to provide details of where the costs of providing the existing level of service will be increased above the rate of inflation in 2017/18.

4.2 This exercise highlighted seven areas totalling £541,600 which will have to be carefully monitored and managed during the year. Most notably, these relate to:

- (a) A reduction in investment returns from the Council's cash holdings of £187,400, partly due to an anticipated reduction in interest rates, and partly due to a reduction in the cash portfolio as money is being diverted into more profitable property investments;
- (b) A reduction in DWP Administration Grants totalling £191,100; and
- (c) An increase in Employers' Pension contributions of £126,000 resulting from the 2016 Pension Fund actuarial revaluation.

All revenue budget pressures are shown in Appendix 6.

#### **5 Corporate Challenge Savings Options and income generation**

5.1 Each year, the Corporate Directors and the Head of Finance meet separately with each Head of Service in a Corporate Challenge session to challenge resource use and decide the best options for providing services including exploring ways to deliver priorities, efficiencies, additional income and improve value for money. So far, savings options totalling £471,750 and additional income of £86,000 have already been identified for 2017/18 and these have been included in the budget forecasts. In addition, £686,800 of property investment income has been included in the MTFS offset by a reduced draw from reserves.

5.2 More options are currently being evaluated and will be reported later in the year. Appendices 4 and 5 show a summary of the proposals received from Heads of Service.

## **6 2017/18 Budget forecast**

- 6.1 The Council is in a position where, due to inflationary effects, its base expenditure increases at a faster rate than its income generation.
- 6.2 This means that every year, savings need to be found to balance the budget before considering additional pressures and enhancements to services.
- 6.3 The Council started the financial year projecting a budget gap of £680,000 for 2017/18 rising to £1.76m in 2019/20. The corporate challenge process has identified significant savings and additional income of £557,750, and the proposed use of New Homes Bonus to offset cuts in Government Grant has reduced the current budget gap for next year to £177,600 rising to £1.13m by 2019/20. Work will continue to refine the budget forecast as more details become available and an update will be taken to Cabinet on 18 January, 2017.

## **7 Medium Term Forecast**

- 7.1 Over recent years, the economic crisis, government deficit reduction programme and major changes to key funding streams such as Council Tax and Business Rates, have created significant challenges to local authorities in setting annual budgets and modelling medium term financial strategies. However, based on the assumptions laid out in the MTFs, the latest Medium Term Financial Forecast is set out in Appendix 3.
- 7.2 Forecasting is not helped by the announcement of the Provisional Local Government Settlement so late in the budget process (17 December last year with some of the crucial details missing).
- 7.3 Other factors such as pay and prices inflation, business rates income and investment returns are dependent on economic conditions in the future that cannot be accurately predicted over the medium term.
- 7.4 The budget forecast shows a current budget deficit in 2018/19 of £740,100 and in 2019/20 of £1.13m. As these totals are cumulative, the work currently being done to reduce the 2017/18 budget gap will naturally reduce these shortfalls to a more manageable level.
- 7.5 The Council is currently involved in the “Heart of Hampshire” combined authority proposal to the Government. This could change the basis for government funding for the Council in the future. The outcome of the proposal is not known at this stage and therefore combined authority implications have not been built into the financial forecasts.

## **8 Next Stages**

- 8.1 The information contained in this report will form the base information for future discussions around the budget. It will go forward to Overview & Scrutiny Committee for comments.

- 8.2 Once the provisional Local Government Finance Settlement has been received in late December it will be necessary to update the current figures and to take account of the comments made by the Overview and Scrutiny Committee. It is planned to update the Cabinet with these figures and comments on 18 January 2017.

## **9 Risk Management**

- 9.1 A risk assessment has been completed in accordance with the Council's Risk management process and has identified the significant (Red or Amber) risks detailed in Annex 1.

## **10 Resource Implications**

- 10.1 Resource implications are contained within the Strategy itself..

## **11 Equality Issues**

- 11.1 An **EQIA screening** has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination and/or low level or minor negative impact have been identified, therefore a full EQIA has not been carried out.

## **12 Conclusion and reasons for recommendation**

- 12.1 The MTFFS presented with this report takes account of all known financial implications and makes various assumptions in projecting the budget forward for the next three years.
- 12.2 The budget position outlined in the Medium Term Financial Forecast is not inconsistent with the position most other Local Authorities will face. However, significant savings will need to be found over the coming years.
- 12.3 These papers will now go forward to Overview and Scrutiny Committee for consideration. The next budget update will be in January, 2017.
- 12.4 The MTFFS is recommended for approval for the following reasons:
- to ensure that the Council has a strategic approach to the management of its finances, and
  - to enable available resources to be allocated to services in line with Council priorities over the medium term.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	1 annex, 6 appendices	File Ref:	
(Portfolio: Economic) Councillor P Giddings			
Officer:	Will Fullbrook	Ext:	8201
Report to:	Cabinet	Date:	30 November 2016