ANNEX 1

MEDIUM TERM FINANCIAL STRATEGY

2017/18 – 2019/20

Test Valley
Borough Council

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1. INTRODUCTION

1.1 This Medium Term Financial Strategy (MTFS) complements the Council's Corporate Plan and sets out a clear framework for financial decision making. 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.

1.2 The MTFS has been produced at a challenging time for the Council's finances. The Council has a balanced budget and reserves are at a safe level – but there is little room for manoeuvre and savings will be required in future to maintain financial stability. The Government and the public expect that Council Tax increases are kept to a low level and the Council is committed to achieving this. At the same time, expectations on the Council to provide efficient and effective services have never been higher.

1.3 2013 saw a radical change in the world of local government funding. Localisation of business rates and of support for council tax has had a profound effect on local authority finances and the level of funding risk that individual authorities face. The implications of these changes have been and continue to be monitored carefully to ensure that any adverse financial impacts are addressed as soon as possible.

1.4 Universal Credit will replace a number of means tested benefits for working age residents including Housing Benefit. On 21 September 2015 Universal Credit was rolled out in the Test Valley area for single jobseekers without children, this has had a limited impact on the workload of the Council's Benefits team. Rollout of the full digital solution for all new working age claims has started in a small number of Jobcentres and is currently scheduled to complete by the end of June 2019; following this all existing Housing Benefit cases for working age customers will migrate to Universal Credit between July 2019 and March 2022. A rollout schedule is being formulated so it is currently unclear when there will be a significant impact for Test Valley residents.

1.5 Funding levels for Local Government are falling rapidly and will continue to do so as the Government tackles the national deficit. So far, the Council has responded by "doing things differently" and by finding efficiencies, savings and raising additional income where it can without affecting front-line services.

1.6 This MTFS includes a forward look over the next 3 years, to anticipate additional spending requirements, and the level of savings that will be needed to keep Council Tax affordable. By anticipating financial pressures now, the

Council will be in a better position to meet the challenges ahead in a way that ensures financial resources are targeted to the Council's highest priorities.

1.7 The MTFS forecasts will be revised at least annually to reflect the most up to date issues, priorities and pressures faced by the Council. Further information on any aspect of the Council's finances can be obtained from the Council's website.

2. FINANCIAL MANAGEMENT PRINCIPLES

"Investing in Test Valley…is about devoting our energy, skills and resources to achieving the best results for our residents and communities across the Borough." – "Investing in Test valley" Corporate Plan 2015-2019 and beyond.

2.1 The Council has a duty to the public for responsible use of their money. The Council will at all times conduct its financial affairs in a prudent, responsible manner, but in a way that encourages innovation, achieves improvement and facilitates partnership.

2.2 The following specific principles underpin the Council's financial management arrangements:

- The Council will conduct its financial management with integrity, probity and in accordance with the standards and expectations of a publicly funded body.
- The Council will ensure that budgets are aligned to the Corporate Plan and based on realistic estimates.
- The Council will work with partners in the public, private and voluntary sectors to maximise funding available to deliver strategic priorities.
- The Council will base its decision making upon complete, reliable and timely financial information, and a full evaluation of all the financial and risk implications.
- The Council will ensure that ongoing funding is available before recruiting new staff and will make use of temporary appointments where this will meet business needs.
- The Council will secure value for money and have regard to environmental considerations in the procurement of supplies and services and will improve the efficiency and effectiveness of its procurement process. To encourage better procurement practice there will be no inflationary increases in budgets for supplies and services (except when there is a contractual obligation to apply indexation).

- The Council will maximise its income and will increase its fees and charges by at least the rate of inflation except where strategic aims, legal requirements, contractual obligations or market forces would render this inappropriate.
- The Council will hold its managers accountable for remaining within their budgets, but will empower managers to take the business decisions necessary to do so.
- Before committing to additional expenditure, the Council will ensure that additional funding, improved income and/or savings are identified to meet the extra costs.
- The Council will maintain balances and reserves to enable the Council to respond effectively to unexpected events and opportunities, and sufficient to meet all known future liabilities.
- The Council will identify savings to support budgetary pressures and not use its general balances; however, use of earmarked reserves may be made to fund specific or one-off items where appropriate.
- The Council will ensure that its published financial information is reliable and understandable.

3. CORPORATE PLAN

3.1 The Council's Corporate Plan sets out the vision for the Borough as follows:

"To be an organisation of excellence committed to improving the quality of life of all the people of Test Valley."

3.2 The Council's main aims are to ensure that the Borough remains a great place to:

- ***Live**, where the supply of homes reflects local needs*
- ***Work** and do business*
- ***Enjoy** the natural and built environment*
- ***Contribute** and be part of a strong community*

3.3 The Council will ensure that budgets are directed towards these key priorities. The mechanism for achieving this is the Council's Strategic Planning Framework (corporate clockwork), which includes a timetable for developing budgets and service plans to ensure that budgets are aligned to these priorities:

The Council's service and planning timetable

Cycle Date	Task	Who
May/June	Corporate challenge process	Heads of Service
June - September	Review of proposals from the corporate challenge exercise	Management Team
September-October	High level draft budget strategy compiled including a review of reserves	Heads of Service
October	Overview and Scrutiny Committee (OSCOM) Budget Panel consider fees and charges	OSCOM Panel
October	Budget Strategy and forecast approved Fees and charges approved	Cabinet
November	Overview and Scrutiny Committee (OSCOM) Budget Panel consider budget strategy	OSCOM Panel

November	Capital Programme and Asset Management Plan (AMP) recommended to Council	Cabinet
November /December	Local business consultation on budget	Finance/ Estates
December	OSCOM receive Budget Panel's recommendations	OSCOM
December	Draft budgets aligned with service plans	Finance/ Heads of Service
January	Council tax support scheme, Capital Programme and AMP approved	Council
January	Budget update and consultation feedback	Cabinet
January	Budget Review	OSCOM
January	Performance target, milestones and detailed service action plans agreed	Heads of Service
February	Final budget recommended to Council	Cabinet
February	Final Budget and Council Tax approved	Council

4. Budget Strategy

4.1 Financial Strategy Aims

4.1.1 The Council's financial aims for the period covering the next three years are set out below. These aims are described in detail in this report and form the overarching aims for each budget setting year within the financial strategy period.

1. To maintain a low Council Tax whilst delivering high quality frontline services.
2. To ensure that the efficiency culture is embedded within the Council, systematically challenging and securing Value for Money.
3. To ensure that the Council's resources are focussed on meeting the Council's Vision for Test Valley and achieving its aims and priorities.
4. To ensure that the Council's infrastructure is fit for purpose and that new capital needs are identified and met.
5. To ensure that the Council's core ongoing financial position remains stable and continues to support the Council's key aims.
6. To ensure that the Council is not dependent on Government Revenue Support Grant by 2020/21.
7. To continue to seek out new investment opportunities through Project Enterprise, making better use of cash resources to enhance revenue returns.

4.2 Budgetary Assumptions

4.2.1 The budget over the duration of this Strategy is based on the following assumptions:

Revenue

- A continuing reduction in Revenue Support Grant as follows:

	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s
Revenue Support Grant	1,012	417	56	0
Reduction	40%	59%	87%	100%

- A continuation of the amendments to Council Tax exemptions and discounts to offset, in full, the reduction in Central Government funding for Local Council Tax Support.
- The Test Valley element of Council Tax rising at £5 p.a. over the next three years.
- The Andover Levy being reviewed and then pegged to the movements in Council Tax over the medium term.
- A general zero inflation allowance for all expenditure budgets except for contractual obligations and a possible staff pay increase.
- The minimum level of working reserves is maintained at £2m over the financial strategy period.
- The Council continues to make cashable efficiencies every year.
- No growth bids will be entertained until the strategy is reviewed in July 2017 – i.e. all growth pressures (except the items detailed in Appendix 6) will be managed by Heads of Service within existing budgets or met from earmarked reserves where this is appropriate.
- No in-year supplementary estimates will be approved by the Cabinet, although a small contingency provision will be available to meet exceptional or extraordinary items of expenditure.
- Income will be maximised by thorough fees and charges' reviews. These are expected to be increased by a minimum of inflation, or such increase as the individual markets can bear except where strategic aims, legal requirements, contractual obligations or market forces would render this inappropriate.
- New Homes Bonus to level out in 2017/18 and then to decrease. This element of financing to be used for specific purposes as follows:
    - Topping up the Community Revenue Fund as necessary
    - Annual contribution to the Community Asset Fund
    - Offset to the expected continuing reductions in Government grants

  More details of this budget assumption are set out in paragraph 4.3.

Capital

- The Council will maximise the utilisation of, and rate of return on, the assets it holds on its balance sheet.
- New capital spending to be cash limited to financing available from usable capital receipts, or where capital receipts are delayed due to market conditions, from borrowing as an interim measure.
- All capital expenditure will be funded in accordance with the principles contained in the Prudential Code for Local Authority Capital Finance. All decisions on capital expenditure to be taken so that investment is prudent, sustainable and affordable, and that the full implications of all capital expenditure decisions are taken into account in the Council's Revenue Budget.

4.3 Review of Reserves

4.3.1 Reserves are held for a variety of different reasons. Some relate to known and relatively certain future costs such as a planned building maintenance, vehicle and IT replacement. Others concern possible, though less certain, liabilities such as unexpected additional costs, or a sudden drop in income from fees and charges. This is where one moves into questions of judgment and prudence.

4.3.2 Reserves are a hedge against risk. Demand for public services is increasing at the same time that the Government is putting a squeeze on public expenditure. Though predictable in general terms, these trends are difficult to quantify and forecast precisely. Reserves provide a fall-back if there is a gap between the assumptions made in the budget and the trends which actually emerge.

4.3.3 The Corporate Challenge process has been very successful over the past seven years in challenging all aspects of the Council's spending, but as the Council approaches the next budget round for 2017/18, opportunities to find further savings and efficiencies are becoming harder to identify. In previous years, the Council has managed to balance the budget and protect frontline services through a mixture of savings, efficiencies, shared services, additional income and taking only a limited amount from reserves.

4.3.4 In 2017/18, the expected draw from the New Homes Bonus Reserve in respect of the reduction in Government Revenue Support Grant will be £1.93m. This sum represents just over 40% of the bonus expected to be received in 2017/18. The Bonus thus forms an increasing proportion of the Council's income as Revenue Support Grant reduces and Business Rates income remains relatively static. It is inevitable that if councillors wish to continue to protect services, they will need to draw down a larger element of reserves than in previous years. In doing so, they will need to exercise great care, including working through medium and long term consequences.

4.3.5 The nature of most local services is that they require recurring funding to meet staff and running costs year after year. Reserves are a one-off, finite source of funding. They can cover a shortfall in recurring funding for a specific period but, after they have been exhausted, the underlying shortfall will still be there. To solve the problem, services will need to be adjusted to a level which is affordable within the envelope of funding available.

Reserves as at 31/3/16 (£000s)

		31/3/15		31/3/16
Usable Reserves				
General Fund Balance	2,000		2,000	
Revenue and Earmarked Reserves	17,584		17,134	
Capital Receipts Reserve	32,272		26,132	
Total Usable Reserves		**51,856**		**45,266**
Unusable Reserves				
Revaluation Reserve	17,431		17,454	
Capital Adjustment Account	120,795		135,249	
Deferred Credits	7		7	
Collection Fund Adjustment Account	(1,322)		2,034	
Accumulated Absences Account	(173)		(176)	
Pension Fund Reserve	(50,530)		(47,790)	
Total Unusable Reserves		**86,208**		**106,778**
Total Equity		**138,064**		**152,044**

4.3.6 The Council's reserves are classified as either "usable" or "unusable".

4.3.7 Usable reserves include the unallocated General Fund Balance, Earmarked Revenue Reserves and the Capital Receipts Reserve. These are cash-backed reserves that the Council can apply to future expenditure subject to statutory conditions (e.g. the Capital Receipts Reserve can only be used to finance capital expenditure).

4.3.8 Unusable reserves contain technical accounting adjustments and, as the name implies, these reserves are not cash-backed and therefore cannot be used to finance expenditure.

4.3.9 The Head of Finance has carried out a detailed review of the Council's usable reserves and looking at current levels of balances, he considers that they will remain adequate for meeting the Council's needs over the medium term.

(a) Reserves – Their purpose and use

General Fund Balance

4.3.10 This represents a working balance to help cushion the impact of uneven cash-flows and minimise unnecessary temporary borrowing. It is reviewed annually by the Head of Finance and, based on the forecast cash-flows identified in the Council's Medium Term Financial Strategy, councillors are recommended to retain a prudent minimum balance in the General Fund. Currently, this is £2m.

Earmarked Reserves

4.3.11 Earmarked reserves are a means of building up funds to meet known or predicted liabilities. The Council currently has twenty-one earmarked reserves totalling £17.1m. These are shown in more detail on page 54 of the Council's Statement of Accounts.

Capital Receipts Reserve

4.3.12 Capital receipts from the disposal of assets are treated in accordance with the provisions of the Local Government Act 2003. The Capital Receipts Reserve can only be used to fund capital expenditure, to repay debt (this council is debt-free), or to fund credit arrangements subject to the de minimis level set out in the relevant regulations (currently £10,000). A large proportion of the cash held in this reserve came from the LSVT of Council housing stock on 27th March, 2000. At the time, it was recognised that the Council would have additional residual costs to bear following the formal transfer of assets and winding up of the Housing Revenue Account. Interest earned on these capital receipts has therefore been used (and continues to be used) to help offset these costs and achieve a balanced budget.

New Homes Bonus (NHB) Reserve

4.3.13 The New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use. The New Homes Bonus is currently paid each year for 6 years. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.

4.3.14 The Council has been very successful in attracting New Homes Bonus. Actual and forecast amounts received and due, amount to more than £26m in the nine year period up to 2019/20. So far £6.4m has been committed from the NHB Reserve. With a further £2.8m being recommended to be drawn from the reserve in 2017/18, this will leave a projected balance of £9.6m available by 31st March 2018. Details of actual and forecast receipts and payments are shown below (n.b. figures in grey are for illustrative purposes only):

New Homes Bonus (£m)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
2011/12 actual allocation	0.410	0.410	0.410	0.410	0.410	0.410			
2012/13 actual allocation		0.460	0.460	0.460	0.460	0.460			
2013/14 actual allocation			0.788	0.788	0.788	0.788	0.788		
2014/15 actual allocation				1.065	1.065	1.065	1.065		
2015/16 forecast allocation					0.849	0.849	0.849	0.849	
2016/17 forecast allocation						1.221	1.221	1.221	1.221
2017/18 forecast allocation							0.879	0.879	0.879
2018/19 forecast allocation								0.715	0.715
2019/20 forecast allocation									0.678
One-off adjustments			0.017	0.007	0.007	0.005			
Total each year (£m)	**0.410**	**0.870**	**1.675**	**2.730**	**3.579**	**4.798**	**4.802**	**3.664**	**3.493**
Approved expenditure:									
Contribution to Rural Broadband			0.062	0.062	0.062				
Ward Budgets		0.006	0.016	0.025	0.036	0.070	0.070	0.070	0.070
Housing Temporary Post		0.013	0.028	0.030	0.017				
Revenues' post for NDR transition			0.015						
Independent Retail Grant			0.003	0.007	0.009	0.020			
Business Incentive Grant						0.024	0.024	0.024	0.024
Capital Programme Financing			0.035	0.087	0.796	0.053	0.118		
Asset Management Plan funding			0.142	0.040		0.355	0.370		
Hampshire Credit Union funding			0.009	0.003					
Small Community Grants						0.010	0.010	0.010	0.010
Community Asset Fund				0.170	0.033	0.489	0.300	0.300	0.300
New Housing Development Officer Post						0.045			
King John's House one off staffing funding						0.002			
Offset to Government grant (RSG) cuts				0.706	1.407	1.544	1.930	2.226	2.556
Total cumulative balance (£m)	**0.410**	**1.261**	**2.627**	**4.227**	**5.446**	**7.632**	**9.612**	**10.646**	**11.179**

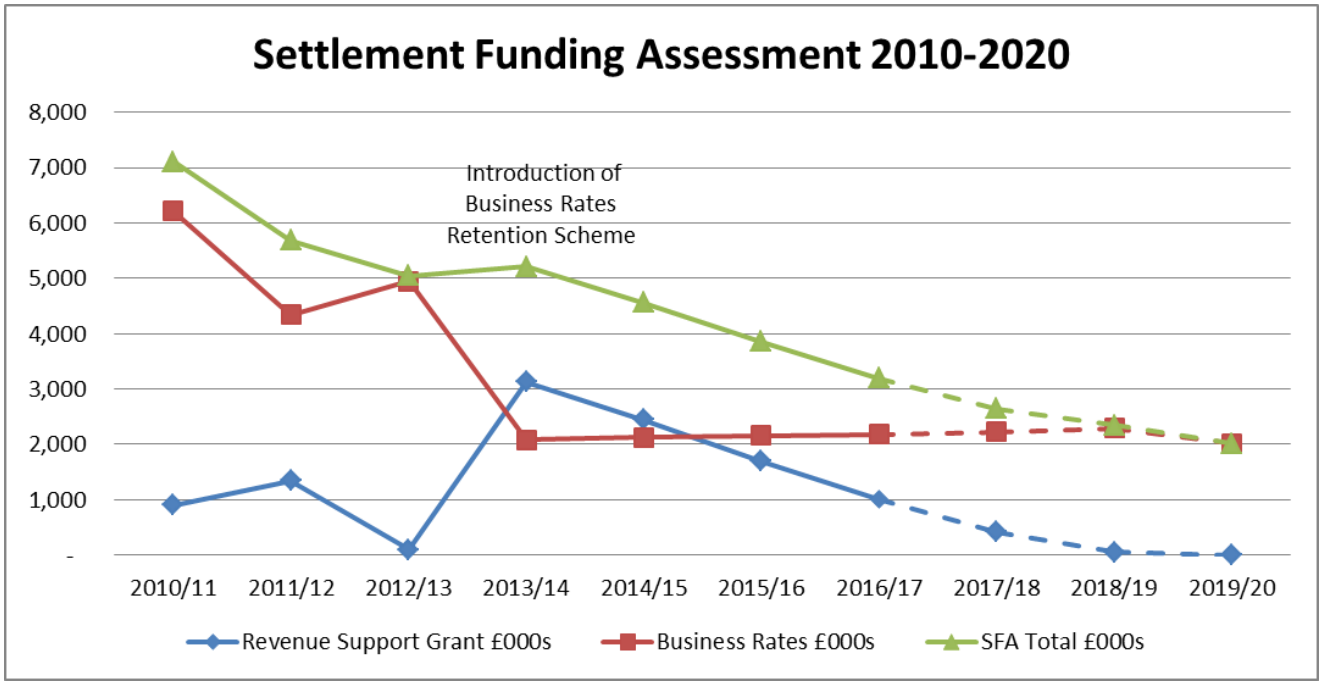
4.3.15 The government has consulted on reforms to the New Homes Bonus this year, including means of “sharpening” the incentive to reward communities for additional homes and reducing the length of payments from 6 years to 4 years. This will include a preferred option for savings of at least £800 million nationally, which can be used for social care. Details of both reforms will be set out as part of the local government finance settlement consultation later in the year, which will include consideration of proposals to introduce a floor to ensure that no authority loses out disproportionately.

4.3.16 At the same time as receiving this substantial unringfenced annual grant from the Government, the Council is facing unprecedented cuts in the level of Revenue Support Grant (RSG) through the Settlement Funding Assessment (SFA).

4.3.17 The Government’s Comprehensive Spending Review (CSR) 2010 indicated that, over a four year period, funding would be cut by 28% leading up to 2014/15. In fact, cuts were even more extreme than expected for most district councils including ours. In 2010/11, Government support via SFA totalled £7.1m. By 2014/15, SFA reduced to £4.6m, a reduction of £2.5m or 36%. Taking into account inflation, the cut in Government support in real terms over four years was over 44%. By 2019/20, SFA is projected to be less than a third of the amount received in 2010/11, a reduction of £5.1m.

4.3.18 The Council's forecast of Government support for the next three years is shown below:

ACTUAL AND FORECAST LOCAL GOVERNMENT FINANCE SETTLEMENT					
Year	***Revenue Support Grant £000s***	***Business Rates £000s***	***SFA Total £000s***	***Change £000s***	***Change %***
2010/11	902	6,208	**7,110**		
2011/12	1,341	4,340	**5,681**	-1,429	-20.1%
2012/13	96	4,946	**5,042**	-639	-11.2%
2013/14	3,127	2,080	**5,207**	+165	+3.3%
2014/15	2,444	2,121	**4,565**	-642	-12.3%
2015/16	1,696	2,161	**3,857**	-708	-15.5%
2016/17	1,012	2,179	**3,191**	-666	-17.3%
2017/18	417	2,222	**2,639**	-552	-17.3%
2018/19	56	2,288	**2,344**	-295	-11.2%
2019/20	-	2,013	**2,013**	-331	-14.1%



4.4 Local Taxation Policy

4.4.1 The financial strategy aims to keep Council Tax at a low level taking into account spending priorities and Central Government funding. This should be set in the context of Central Government's expectations of local authorities and already very low levels of Council Tax charged in the borough. The Council Tax for Test Valley Borough Council was frozen at £121.41 in 2011/12 and again in 2012/13. In 2013/14, the Government recognised the problems created by being a low tax authority and made a special dispensation to allow those councils in the bottom quartile to put up Council Tax by £5. The Council took advantage of this offer and approved an increase of 4.1% to £126.41. The Council Tax was frozen again in 2014/15 and in 2015/16, and then increased by £5 for 2016/17. The current level of Council Tax at £131.41 is still very low - the 23rd lowest out of the 201 district councils in England, and the 3rd lowest in Hampshire. It is also £44, or 25%, lower than the average Council Tax payable in the rest of England.

4.4.2 The MTFS forecast assumes that Council Tax will rise by £5 in each year from 2017/18. The Government has announced its council tax referendum threshold for 2017/18 which will allow the Council to increase its Council Tax by up to £5 without triggering a referendum. The table below illustrates that the Government will continue to make this concession up to 2019/20 and has in fact built this higher increase into its own estimates of the Council's "spending power". The Council is therefore basing its forecasts on the Government's own assumptions about the level of Council Tax increases needed to minimise the loss in its spending power.

Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17 £ millions	2017-18 £ millions	2018-19 £ millions	2019-20 £ millions
Settlement Funding Assessment*	3.9	3.2	2.6	2.3	2.0
Council Tax of which;	6.0	6.4	6.8	7.2	7.6
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	*6.0*	*6.2*	*6.5*	*6.8*	*7.1*
additional revenue from referendum principle for social care	-	-	-	-	-
additional revenue from £5 referendum principle for all Districts' Band D Council Tax level	-	*0.2*	*0.3*	*0.4*	*0.5*
Improved Better Care Fund	-	-	-	-	-
New Homes Bonus	3.6	4.8	4.8	3.0	2.9
Rural Services Grant	-	-	-	-	-
Transition Grant	-	0.1	0.1	-	-
Core Spending Power	**13.5**	**14.4**	**14.3**	**12.5**	**12.5**
Change over the Spending Review period (£ millions)					-1.0
Change over the Spending Review period (% change)					-7.6%

4.5 National Context and other external factors

Local Government Finance Settlement

4.5.1 A Comprehensive Spending Review (CSR) usually takes place every four years. On 25th November, 2015, the Government released its Spending Review and Autumn Statement 2015 which set out the action required to return the country to surplus by the end of the Parliament. This provides a great deal of information about National Control Totals for the period up to 2020/21, but very little detail about the breakdown of individual departmental budgets and the consequential impact for local government.

4.5.2 There were however, a couple of significant announcements. These included:

4.5.3 **Funding Context**

- A real-terms cut in non-protected services of £19bn (12.6%) between 2015-16 and 2019-20.
- Real-terms protection for NHS, an increase by 0.5% per year in real terms for the MOD, protection for Schools budgets and International Development.
- An implied significant cash-terms cut in local government funding:

Estimated cuts to Local Government Funding (£Bns)

	2015-16	2016-17	2017-18	2018-19	2019-20
Unprotected	78.3	77.1	70.4	64.6	62.2
Council tax	22.0	22.6	23.1	23.7	24.3
Total	100.3	99.6	93.5	88.3	86.5
Cut required		-1.2	-6.7	-5.8	-2.4
Local government	43.9	43.4	40.3	37.6	36.6
Deduct council tax	-22.0	-22.6	-23.1	-23.7	-24.3
Local government	21.9	20.8	17.1	13.9	12.3
Reduction		-5.0%	-17.6%	-18.7%	-11.6%
Cumulative reduction		-5.0%	-21.7%	-36.4%	-43.8%

4.5.4 **100% Business Rates Retention**

- The Chancellor announced plans to increase Local Government retention of business rates from 50% to 100% by end of parliament.
- This proposal has numerous technical challenges but perhaps the major issue is deciding on a fair and equitable redistribution mechanism.
- Potentially, this could favour councils such as Test Valley Borough Council having relatively low needs and a healthy local economy.

4.5.5 On 13th July, 2016, the Rt. Hon. Philip Hammond MP was appointed Chancellor of the Exchequer, replacing George Osborne who was in this post since 2010. In recent speeches and interviews given by Philip Hammond, he has indicated that he will "manage public finances in a different way" to his predecessor. He has recognised that the UK's deficit is still "eye-wateringly large" and there remains a need to keep down day-to-day spending but there is scope to introduce "specific targeted investment". The impact of this change in attitude and how this may affect the Government's control totals will become clearer as the next Autumn Statement 2016 is announced on 23rd November, 2016.

Welfare Reform

4.5.6 As mentioned in paragraph 1.4, Universal Credit was rolled out in the Test Valley area in September 2015. Timescales have been extended yet again and full migration to the new system is not now expected to be completed until 2021/22. The nature of the council's on-going role has not yet been established. Levels of staffing may be affected and the current Administration Grant is under review. The Government has now deferred making a decision regarding the administration of Housing Benefits for Pensioners; changes are now likely to be implemented after the Universal Credit project has been completed in 2022.

4.5.7 An evaluation of the impacts will need to take place in the future, recognising that the government's timescales may slip, and the potential effects of Universal Credit have not been factored into the MTFS at this stage. The Council will therefore need to monitor the position carefully and accept that there may be a risk of increased expenditure which will need to be dealt with in future.

Business Rates Revaluation

4.5.8 **New Draft Valuation List**

A new valuation list for non-domestic properties takes effect from April 2017. Valuations will be based on non-domestic properties' rateable value in April 2015. On 30th September, 2016, the Valuation Office Agency published details of individual properties' draft rateable values for the new list, providing ratepayers with an estimate of their business rates bill from April 2017.

4.5.9 **Transitional Arrangements**

In order to manage the impact of the revaluation on ratepayers, a transitional relief scheme will operate, as in previous years. The Department for Communities and Local Government published a consultation on 28th

September, 2016 on the arrangements for transitional relief. The consultation ran for four weeks and closed on 26th October, 2016.

The transitional relief arrangements are designed to be self-funding, with the cost of the relief for those ratepayers facing increases funded from other ratepayers. The consultation proposes two options for the scheme; the Government's preferred option (Option 2) would allow for a larger number of medium value properties to move to a lower bill more quickly, if they have benefitted from the revaluation.

4.5.10 **Impact on the Council's Income**

The revaluation is designed to be 'fiscally-neutral', meaning the overall income business rate receipts will remain constant in real terms at the start of the new list. In order to achieve this, given an overall national increase in rateable values, the multiplier will be reduced. According to the press release accompanying the consultation, DCLG indicated that 'the small business multiplier is estimated to fall, from April 2017, by 1.7p to 46.7p; and the standard multiplier is also estimated to fall by 1.7p to 48.0p to ensure business rate receipts remain constant in real terms'.

The Government has previously indicated that tariffs and top-up would be adjusted following a revaluation, to ensure, as far as is practicable, that authorities' retained income is the same after revaluation as immediately before. The DCLG technical consultation on the 2017/18 local government finance settlement, published on 15th September 2016, sets out a methodology to achieve this. The proposed methodology would identify and isolate the amount by which business rates income in the authority will change purely due to the revaluation and uses these figures to adjust tariffs/top-ups in order to cancel out the impact of revaluation.

Prospects for interest rates

4.5.11 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

4.5.12 Capita Asset Services undertook a quarterly review of its interest rate forecasts after the Monetary Policy Committee (MPC) meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, the Governor of the Bank of England, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

4.5.13 The MTFS forecast is based on base rate levels as shown in the table above. Further work is currently being carried out to assess the likely cashflows expected in 2017/18 and beyond. A further update will be provided to Cabinet in January and February using the latest market information.

Key budgetary issues for the Council relating to external factors are:

- The uncertainty about future levels of government funding and how severe any future reductions in Revenue Support Grant and specific grants will be;
- Uncertainties introduced by ongoing and proposed changes in the localisation of Business Rates – levels of business rate income, tariffs and levies, appeals and revaluations, and new equalisation mechanisms;
- Fluctuations caused by the Business Rates Revaluation 2017 and transitional arrangements;
- The proposed changes announced for the New Homes Bonus Grant;
- The impact of major central government policy changes, particularly the implementation of Universal Credit;
- The length of the Government's austerity programme and its impact on increasing demands for services;
- The timing of the recovery of interest rates and the consequent increase in investment returns;
- The impact of Brexit on public finances;
- The impact of Combined Authority proposals.

Given the range of issues listed above, the next three year period will be extremely challenging for the Council. However, Test Valley Borough Council has consistently shown that it can manage its overall finances in a robust manner and with limited resources.

4.6 Efficiency Agenda

"Managing for the long term is not about predicting the future: it is about preparing for it. Planning involves understanding future demand, assessing the impact of probable changes, and reviewing the gaps between funding needs and possible income. Plans to meet estimated budget gaps should combine basic efficiency measures with more ambitious options to transform service delivery and manage demand." – Audit Commission "Surviving the Crunch"

4.6.1 The Council has a good track record of achieving and exceeding Government efficiency targets.

4.6.2 These efficiencies have been achieved by a combination of:

- Corporate Challenge – to review ***what*** we are doing
- Service and function reviews – to look at ***how*** we are doing things with regard to economy, efficiency and effectiveness
- Channel shift and digital transformation
- Corporate Procurement – to harvest savings through better and collaborative procurement
- Corporate Asset Management – to make the best use of the Council's considerable asset holdings
- Enterprise and Innovation Project – to adopt a more entrepreneurial approach
- Establishment of a new Housing Development and Management Company

4.6.3 In achieving these targets, budget holders have shown great discipline in working within ever tighter financial constraints.

4.6.4 It is fair to say that it is becoming increasingly difficult to identify savings after ten years of budget restrictions, with options now looking at asking the fundamental question of whether we continue to provide all of our current services in the existing way, or indeed if we provide them at all.

4.6.5 The Council has made great strides in establishing a sustainable and targeted approach to finding even more cashable efficiencies and this work must continue over the next three years. With this in mind, in October 2016 the Council approved an Efficiency Plan 2016-20 setting out its plans for making additional efficiencies over the next four years. This is shown in Appendix 1. The Efficiency Plan was duly submitted to the Government applying for a multi-year finance settlement. The Council should hear about whether its application has been successful imminently.

4.7 Revenue Budget Medium Term Forecast

4.7.1 The Revenue Forecasts for 2017/18 to 2019/20 have been drawn up at a macro level. They do not constitute detailed budgets, which will continue to be prepared on an annual basis within the normal timescales. However, the costing of specific issues and evaluation of proposed developments has informed the forecast.

4.7.2 The forecast is based on a middle case scenario using the assumptions shown in Appendix 2. It should be recognised that there will not be sufficient resources to meet all the service delivery ambitions and priorities of the Council without the generation of significant savings or additional income. This financial strategy for the three year period to 2019/20 should ensure that the financial resources of the Council continue to be aligned to the delivery of the Council's service and organisational priorities.

4.7.3 Achieving the improvements that the Council has set itself will require difficult policy decisions and resource choices to be made.

4.7.4 The budget principles and guidelines outlined in this strategy will allow for a phased use of reserves over the medium term to allow time to adjust to a standstill budget and an ever decreasing amount of external support. The previous section stressed the importance of finding service efficiencies. 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 £555,080, and the proposed use of New Homes Bonus to offset cuts in Government Grant has reduced the current budget gap for next year to £160,900 rising to £1,093,500 by 2019/20. The savings and additional income options being put forward for consideration are shown in Appendix 4 and 5. Appendix 4 also includes additional net income of £588,000 being the full year impact of income from property investments made over the last two years less an agreed contribution to capital reserves to repay the capital sum over time. This unbudgeted net income has been used to reduce the draw from the New Homes Bonus Reserve and will help to achieve the strategic aim of working towards a position where the Council is not dependent on Government Revenue Support Grant.

4.7.4 Current financial projections indicate the following financial position:

	2017/18 £000s	***2018/19 £000s***	***2019/20 £000s***
Approved 2016/17 Net Budget	12,064		
Adjusted for:			
- Inflation	+500	+500	+500
- Revenue Pressures (Appendix 6)	+542	+295	+126
- Other base changes	-371	0	0
- Corporate Challenge Savings/Income Generation (Appendix 4 and 5)	-558	0	0
- Net Additional Income from property investments	-687	0	0
- Business Rates Adjustment	-1,650	0	0
- Additional draw from New Homes Bonus	-386	-297	-331
Current Spending projections	9,454	9,952	10,247
Budget guideline based on expected aggregate external finance available	9,276	9,212	9,113
Cumulative Budget Shortfall (Appendix 2 & 3)	**178**	**740**	**1,134**

Full details are set out in the attached appendices to this report.

4.7.5 Details of further efficiency and other savings are currently being gathered together for Members' consideration in terms of the funding gap identified above and these will be presented to Cabinet in January 2017. The Cabinet will then decide on which options should be taken forward as recommendations to full Council as part of the budget setting process in February 2017.

4.7.6 The Council has a number of earmarked reserves set aside specifically to support the budget over the medium term:

- Budget Equalisation Reserve £682,000
- Income Equalisation Reserve £355,000
- Investment Income Equalisation Reserve £492,000

4.7.7 Whilst this £1.53m will be available to ease the pressure of balancing the budget during the next three years, it should be noted that this is not a sustainable solution to bridging the budget gap, as these reserves can only be used on a one-off basis.

4.8 Achieving the strategy over the Medium Term

4.8.1 It is anticipated that the required level of savings will be achieved through a combination of the following:

- Corporate Challenge process
- Procurement savings
- Improving value for money
- Service transformation
- Savings from partnership and shared services
- Generating additional income through use of fees and charges
- Generating additional income through external funding sources
- Generating additional income through Project Enterprise

However, it is inevitable that savings of this order can only be achieved by making difficult choices about the best use of limited and reducing resources and the relative priority of services offered to Council Taxpayers and stakeholders.

The following section outlines a proposed action plan to achieve a balanced budget over the next three years.

Action Plan

	Item	Background	Action
1.	**To deliver, either directly or through others, good quality and efficient services; assisted by a finance culture where continuous improvement and the search for more efficient, effective and economical ways of working are pursued throughout the organisation.**	Test Valley Borough Council's culture needs to ensure that efficiency, effectiveness and economy are at the heart of service provision. These issues need to be driven from the top of the organisation. When incurring expenditure all staff need to be as vigilant (if not more so) as they are when incurring expenditure in their domestic lives, and this needs to be evaluated when reviewing performance.	• Require officers to prepare budgets and service plans which demonstrate new and continuing savings on the cost of existing services each year. Savings are to be found on the basis of the following priority :- (a) Make efficiency savings; (b) Secure external income for specific projects or initiatives; (c) Reduce or cease delivering lower priority services; (d) Increase charges. • Continue a programme of Corporate Challenge and Service/Function Reviews and provide appropriate training throughout the organisation to support the culture of efficiency. • Ensure relevant staff and managers are provided with enhanced financial training through management development initiatives. • Focus upon the opportunities for partnerships and external funding to support revenue, and capital programmes.
2.	**To make demonstrable progress in moving financial resources to the Council's highest priorities as set out in the corporate plan.**	In a period of constant financial pressures the Council has a good record of making savings.	• Review the Council's Corporate Plan each year prior to the initial consideration of the Budget Strategy in July. • Review the allocation of resources between priority services and those identified by the Council as being its non-priorities.
3.	**To prepare and implement strategies on capital and external funding that support the Council's aspirations in the corporate plan.**	The Council must take an integrated view of capital and revenue spending, since capital expenditure impacts through financing and revenue costs of projects upon the revenue budget.	• Target available capital funding towards high priority initiatives identified in the Council's Corporate Plan. • Develop a strategy on external funding and the possible use of public/private partnerships, in future years, to support the aspirations in the Corporate Plan. • Review the Asset Management Plan at least annually to identify opportunities for creating capital resources from the disposal of surplus and under-performing assets. • Review the implications of the Prudential Code for Capital

			Finance in relation to the framework for Capital investment and the Council's "debt-free status", and investigate opportunities for affordable prudential borrowing.
4.	**To prepare financial projections (budget forecast) for at least three years ahead which show how the Council intends to balance its budget.**	The preparation of financial projections is well-established within the authority.	• Agree a preliminary budget forecast in July each year which shows a clear outline of how a balanced budget at an acceptable Council Tax level is expected to be achieved over a three year period. • Review the Asset Management Plan to establish whether there are further opportunities for revenue generation. • Ensure that the revenue costs of capital schemes are fully evaluated through good project management and appraisals without optimism bias. • On a yearly basis, evaluate whether any borrowing should be undertaken to fund capital schemes, taking into account the impact of borrowing on the desired level of Council Tax.
5.	**To agree a policy as part of the consideration of the Budget Strategy to constrain Council Tax increases to a reasonable level, in line with any Government Guidelines.**	Whilst consideration needs to be given each year to the detail of budget requirements this framework is intended to give some strategic direction to the setting of Council Tax levels. It needs to be recognised that the level of increases each year has a long term effect on the Council's ability to deliver services	• Review the Council Tax strategy in detail every July at the start of the budget process and consider the long term implications on levels of service. • Consult public and stakeholder groups on the priority of services on a regular basis.
6.	**To manage a budget process which allows adequate time for, and takes account of, consultation with the public, business community, councillors and staff.**	The Council's budget processes have been evolving in recent years. The budget process should include adequate external consultation with the public and strategic partners.	• Agree a budget timetable each year in accordance with the Council's Strategic Planning Framework (corporate clockwork), which allows for adequate consultation to take place.
7.	**To maintain balances and reserves that provide the Council with the ability to react to contingencies, provide for future known liabilities and to take advantage of opportunities**	The Council's balances and reserves fall into four categories:- (a) General Fund Balance: the Council's strategy is to maintain a minimum balance of £2m over the medium term. This is deemed to be the minimum prudent level having taken into account	• Continue to maintain a General Fund balance of a minimum balance of £2m, without the need to budget for increases of balances (i.e. any required increases should normally be met from out-turn savings).

	that arise.	such factors as:- • the size of authority • the volatility of income and expenditure streams • the overall accuracy of budgets • the quality of financial management, systems, processes and information • the risks faced by the authority (e.g. extreme weather conditions or legal action brought against the Authority regarding damages) • the financial risks inherent in significant partnerships. (b) Reserves and Provisions to meet the cost of liabilities not covered by insurance (i.e. where the Council bears risks, e.g. through policy excesses, instead of arranging insurance). (c) Capital Reserves specifically to meet future capital expenditure. (d) Reserves for earmarked for specific purposes.	

8.	**To maintain a charging structure that aims to recover full cost, provides value for money and makes adequate provision for social factors.**	All fees and charges are reviewed annually, but more can be done to link these to the cost of service provision and ensure that costs are fully recovered.	• Review all charges and potential new sources of charges income annually against the following principles:
			  • Services should raise income wherever there is a power or duty to do so.
			  • The income raised should cover the full costs of providing the service, including all overheads and cost of capital where capital is involved.
			  • Any departures from these general principles must be fully justified in a transparent manner with reference to the Council's priorities and policies.
			• Review any further opportunities for introducing charges for discretionary services

9.	**To employ strong, well-respected and timely budgetary**	The Council prepares budgetary monitoring reports for Members each quarter and budgetary control has been	• Prepare regular Member budgetary monitoring reports based upon the latest approved Budget.

	control.	continuously improving. Financial regulations permit the use of Virement, to assist managers in delivering the purposes of the budget. The Council's budget already includes a staff vacancy allowance amounting to 3% of staffing budgets and it is proposed to increase this to 4% from 1st April 2017.	• Review budgetary monitoring reports monthly at Service meetings and at each Performance Board meeting to inform the quarterly reporting to Cabinet. • Ensure an appropriate relationship between budget holders and accountancy staff within the service structures and provide training where necessary. • Review the provisions for staff vacancy and out-turn variations each year in May/June. • Focus on financial capability in management training and appraisal. • Thoroughly investigate reasons for underspent budgets at the end of the year to identify any areas of overprovision. • Continue to challenge budget assumptions through the Corporate Challenge process.
10.	**To provide clear and user-friendly financial management information.**	The Financial Management Information system was replaced in April 2010. This system, although adequate for accounting purposes, is now six years old and investment in its development has been poor. It is also complex for the end user to extract the management information they need, and may now not be the best solution for the Council.	• Ensure that managers and budget holders receive adequate refresher training so that they are aware of and can use the financial reporting system to its full potential and have access to the financial information they want. • Start work in 2017 on investigating a potential replacement Financial Management Information System either alone or in partnership with other authorities.
11.	**To implement sound, modern, imaginative financial systems and procedures.**	The Council's Financial Regulations and Contract Standing Orders require reviewing to take into account changes in systems, processes and new legislation.	• Review the Council's financial regulations and contract standing orders to ensure that they remain fit for purpose. • Work to improve the Council's procurement procedures and to achieve savings through better procurement. • Pay all suppliers within 10 working days. • Set and monitor against targets for the efficient collection of

			Council Tax, Business Rates and other debts. • Continue with an approach to Treasury Management based on a cautious approach to risk in relation to the approved Treasury Management Policy and Strategy. • Develop risk based approaches to all aspects of the Council's systems, controls and procedures.
12.	**To implement a scheme for Council Tax Support and ensure it is carefully monitored to assess the impact on clients and the finances of the Council.**	Council Tax Benefit was replaced by a local scheme of Council Tax Support from 1/4/13.	• Ensure that the Council approves a Local Council Tax Support Scheme by January each year for implementation in April. • Ensure that the Council Tax software remains fit for purpose. • Continue to develop monitoring arrangements to assess the impact of the scheme on clients and report regularly on the budgetary impact of the changes in collection rates and bad debts.
13.	**To monitor and control income from Business Rates.**	The Local Government Finance Act introduced significant change to the local government finance system including a Business Rate Retention Scheme. A new Valuation list for non-domestic properties takes effect from April 2017.	• Continue to monitor the impact of localisation of Business Rates e.g. ensuring prompt action to identify and bring into the Rating List new properties; anticipating reductions and increases in Rateable Value and correct and prompt billing, collection and recovery. • Liaise with the Valuation Office Agency to ensure local firms are having their properties valued correctly and paying the right amount of tax. • Report monthly on Business Rate income, adjustments, write offs, revaluations etc. Carry out projections of net income levels to the year end and forecast levels of income for future years, to ensure that the Council anticipates and plans for major fluctuations in this important income stream.
14.	**To adopt an entrepreneurial approach to develop investment opportunities to generate additional income for the Council so that it can become more financially self-sufficient.**	The Council will face continuing cuts to Revenue Support Grant over the coming Spending Review period and needs to deliver sustainable replacement income streams.	• The Enterprise and Innovation Board and project team will continue to facilitate property investment and acquisition and the development and management of housing projects.

4.9 Capital Strategy

4.9.1 The Capital Strategy has been reviewed in light of this Medium Term Financial Strategy and requires some updating. This will be done in February 2017. Fundamentally, the strategy is sound and sets out the key principles as follows:

- The main drive of the Strategy is to balance future capital expenditure with receipts generated without drawing from existing balances. The use of prudential borrowing may be considered as a finance bridging option pending a recovery of the property market.
- Regular reviews will be carried out, alongside the Asset Management Plan, to identify potential assets for disposal.
- Where possible, capital investment will be targeted at areas that will generate efficiencies in the future delivery of services or where ongoing savings can be made.

4.9.2 A copy of the full current strategy can be found in the Cabinet agenda papers for 30/10/13.

5. Risk Assessment

Risk	Likelihood	Impact	Management of Risk
Future resources less than assumed - **RED**	Significant	Critical	Revenue: Assess impact of Local Government Settlement at the earliest opportunity. Monitor the impact of the localisation of business rates and of support for council tax and revise forecast as necessary. Capital: Schemes and projects kept on reserve list until resources are confirmed. Delay design stage approval of schemes in capital programme, if necessary. Monitor the amount of future usable capital receipts.
Savings anticipated from reviews are not delivered. - **AMBER**	Significant	Significant	Continue with corporate challenge and Service reviews. Closely monitor progress of budget / efficiency savings through monthly budget monitoring. Use of the Budget Equalisation Reserve if necessary.
Investment Income targets are not achieved - **AMBER**	Low	Significant	Review Treasury Management Strategy at least monthly. Quarterly meetings with Treasury advisors and Economic Portfolio Holder to look for low risk opportunities for investment. Mid-year monitoring report to OSCOM. Use of the Investment Equalisation Reserve if necessary.
Legislative changes not anticipated. **- AMBER**	Significant	Significant	Keep up to date with Government policy and consultations.
Local data changes vary from those assumed. **- AMBER**	Significant	Significant	Review of assumptions with support from other bodies.
Pay awards or inflation vary from those assumed. **- AMBER**	Significant	Significant	These factors have a large influence on the revenue budgets. Pay awards to be agreed at an affordable level. Inflationary factors to be reviewed regularly.
Future spending requirements are under-estimated. **- AMBER**	Significant	Significant	Review Service Plans and spending projections. Closely monitor progress through budget/performance monitoring.
Revenue implications of capital decisions are not taken into account. **- AMBER**	Low	Significant	Capital Approval processes to be reviewed to ensure all revenue consequences continue to be identified.
Income targets are not achieved. **- AMBER**	Significant	Significant	Monthly monitoring of budgets and projections. Use of the Income Equalisation Reserve if necessary.
Staffing budgets are not sufficiently controlled. **- AMBER**	Low	Critical	Rigorous process is already in place for filling posts and managing vacancy targets.
Investment in priority areas does not lead to desired outcomes being achieved. **– AMBER**	Significant	Significant	Robust performance management framework incorporating quarterly monitoring reports.

Standards of service fall, particularly in non-priority areas. **- AMBER**	Significant	Significant	Robust performance management framework incorporating quarterly performance monitoring reports.

6. Summary and Conclusions

6.1 Within the *Corporate Plan 2015-2019 and beyond – ""Investing in Test valley"*, the Council has set out an ambitious programme to fulfil its vision to be an organisation of excellence committed to improving the quality of life of all the people of Test Valley. This will be achieved by devoting our energy, skills and resources to achieving the best results for our residents and communities across the Borough.

6.2 This Medium Term Financial Strategy aims to support the Council's Corporate Plan whilst recognising the implications of the government's drive to reduce public sector expenditure. Resources will be prioritised to meet these needs; both in terms of revenue and capital spend. The next three years are expected to produce very tight Local Government Finance Settlements and will require significant efficiency savings across all parts of the Public Sector. Coping with Central Government legislative and policy changes will be extremely challenging and will require careful management of funding risks.

6.3 The budget principles and guidelines as outlined in this report imply a standstill budget over the medium term, and so any recurrent growth emanating from Members or Officers will have to be funded by changing priorities or from savings/additional income.

6.4 The capital investment programme will continue to be agreed based on the priorities agreed by the Council and the priority scoring mechanism contained in the Capital Strategy. It is envisaged that the overall programme can be funded from anticipated resources, although the phasing needs careful attention to ensure the Council is not forced into selling assets in a suppressed property market, or borrowing unnecessarily. The phasing of any projects may require adjustment if a significant change to the funding timescale, or alternative sources of funding, becomes apparent at a later date.

6.5 The capital strategy indicates that the Council has a very limited level of capital resources available for investment, and there needs to be a note of caution on the overriding need for prudence in the use of these resources.

6.6 The continuing constraints on the availability of sustainable capital resources in the medium and long term and the direct impact on the revenue budget leaves

little room for manoeuvre. In any event, the revenue consequences of spending scarce resources must always be borne in mind in judging the merits of any capital investment proposal.

6.7 This strategy sets out clear guidelines for dealing with the Council's budgets over the next three years. The Council faces a number of significant financial pressures across a range of services and it is clear that delivery of the action plan contained in this financial strategy will be challenging. The Council will have to undertake a detailed review of areas where efficiencies can be made in order to realign budgets to its priorities. This strategy is also a key component of the Council's governance arrangements, supporting Council priorities within a sound financial framework.