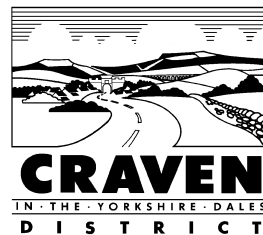


Policy Committee – 11 February 2014



MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2014/15 TO 2017/18

Report of the Corporate Head of Financial Management

Ward(s) affected: All

1. Purpose of Report

- 1.1 The purpose of the report is to provide members with an update on the forecast financial position for the four year period to 2017/18.

2. Recommendations

- 2.1 That the medium term financial strategy 2014/15 to 2017/18 as set out in this report be submitted to Council for approval.

3. Background Information

Scope of the Report

- 3.1 The Medium Term Financial Strategy (MTFS) provides a financial framework for the council's strategic planning and decision making over the next four years. This enables a longer term strategic view to be taken when decisions are made that have a financial impact beyond the annual budget. The MTFS is updated on an annual basis to provide a rolling four year financial strategy. The strategy for 2014/15 to 2017/18 is attached as Appendix A.
- 3.2 The Council's current Medium Term Financial Strategy (MTFS) was approved by Full Council in March 2013. This report presents an update taking into account changes to the key assumptions within the strategy and the 2014/15 revenue budget decisions to be approved by the Council on 25 February 2014.
- 3.3 The current MTFS took a cautious view of the Council's finances given the uncertainty within the wider economy and the Government's ongoing resource review. This update continues with that view.
- 3.4 A year on, the continuing economic recession, the impact of the Council Tax Support Scheme, changes to specific grants, confirmation of the business rates retention scheme, and announcements from Central government means that ongoing cuts to public spending are inevitable.

- 3.5 The MTFS indications are that whilst the Council has approved a balanced revenue budget for 2014/15 the challenges for 2015/16 and beyond will continue. The estimates within the MTFS show that the Council will need to continue with its savings plan and achieve savings of at least £316k in 2015/16, rising by £174k to £490k in 2016/17 and £152k to £642k in 2017/18.
- 3.6 The December settlement announcement has enabled the Council to predict its likely position in 2015/16. However, the years beyond that will form part of the next spending review and therefore an estimate has had to be made based on existing Government announcements and commitments. This uncertainty means that the Council could face additional pressures over and above those contained within the MTFS.
- 3.7 The MTFS includes a number issues and proposals that the Council will need to consider whilst it confirms its plans to achieve the level of savings required to maintain the financial resilience of the Authority for the future.

4. Implications

4.1 Financial and Value for Money Implications

All financial implications are contained within the report and its appendices.

4.2 Legal implications

None as a direct result of this report – we have a balanced budget for 2014/15, but going forward it is a further requirement that the budget is balanced...

4.3 Contribution to Council Priorities

The revenue budget for 2014/15 was developed in support of the Council Plan. The MTFS provides the framework for the Council's financial sustainability and resilience which are crucial to delivering its priorities.

4.4 Risk Management

All risks are clearly identified throughout the report.

4.5 Equality Impact Assessment

The Council's Equality Impact Assessment Procedure **has been** followed. An Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

5. Consultations with Others

None

6. Access to Information : Background Documents

None

7. Author of the Report

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8. Appendices

Appendix A – Medium Term Financial Strategy

CRAVEN DISTRICT COUNCIL**Medium Term Financial Strategy 2014/15 – 2017/18****1. Introduction and Background**

- 1.1 The Medium Term Financial Strategy (MTFS) provides a financial framework for the council's strategic planning and decision making over the next four years. This enables a longer term strategic view to be taken when decisions are made that have a financial impact beyond the annual budget. The MTFS is updated on an annual basis to provide a rolling four year financial strategy.
- 1.2 The current MTFS was approved by Full Council in April 2013 as part of the budget setting process. It took a cautious view of the Council's finances given the uncertainty within the wider economy and the Government's on-going resource review. This paper presents an update taking into account changes to the key assumptions within the strategy and the 2014/15 revenue budget decisions to be approved by the Council on 25 February 2014.
- 1.3 The MTFS sets out the latest estimated funding resources that will be available to the Council over the period 2014/15 to 2017/18, the demands on those resources, and the level of savings or additional income that is likely to be needed to keep Council Tax affordable and keep a balanced budget. Anticipating financial pressures now, enables the Council to plan ahead to meet the significant challenges that local government faces over the medium term. In this way we can ensure that financial resources are targeted to the Council's highest priorities as set out in the 2014-18 Council Plan.
- 1.4 The MTFS covers all revenue and capital spending plans of the Council.
- 1.5 The MTFS seeks to achieve the following objectives.
 - a) Budgets are prudent and sustainable in the long term.
 - b) Financial plans recognise corporate priorities and objectives.
 - c) The capital programme and its resource requirements are factored into forecasts.
 - d) Constraints on revenue and capital resources are recognised and taken into account.
 - e) Significant risks are identified.
 - f) Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the Council.

2. Update on Financial Assumptions**Inflation**

- 2.1 The current strategy allowed for a 2% across the board increase on non-

staff costs in line with CPI. The treasury forecast for CPI for the next 12 months is 2% it was at 2% in December. Inflation at 2% for general price increases is continued for this MTFS and should give enough flexibility for above average increases in relation to items such as utility costs. RPI is expected to remain slightly higher at around 2.5%; it was at 2.7% in December.

- 2.2 Fees and charges have where appropriate been increased by RPI for 2014/15 which, is in line with the policy. With expectations for RPI to remain at around 2.5% for the life of this strategy an increase of 3% has been applied to relevant income budgets where appropriate. The exception is car parking for which no increase has been assumed.

Interest Rates

- 2.3 The bank base rate remains at 0.5% with a rise not forecast until 2016 at the earliest. This will continue to have an impact on the investment income that the Council can earn on its available balances. The Council is currently generating an average return of marginally above the bank rate however expected rates of return are expected to continue at base rate until 2016/17 when the rate is forecasted to rise to 1%. Table 1 shows the estimated investment income returns on the Authority's cash flows, balances and reserves that will be generated based on this forecast.
- 2.4 The beneficial impact of low interest rates is that the cost of borrowing is at an historically low level. In November the Council refinanced a maturing loan of £1.25m at 6.01% with loans totalling £1m and an average rate of 3.09%. This will enable MRP to be utilised to fund projects within the capital programme for the life of this MTFS without the need for new external borrowing. Should any new projects currently unplanned require financing via borrowing in the next few years then they should be evaluated to ascertain the optimum time-frame for securing any new borrowing. Table 1 shows the interest cost of current borrowing.

Table1: Forecast for Investment Income and Interest Payments

	2014/15 £'000	2015/16 £,000	2016/17 £'000	2017/18 £'000
Investment Income	(19)	(20)	(40)	(50)
Loan Interest Charges	256	256	256	256

- 2.5 If the Council decides to borrow to fund the shortfall in resources for the Capital programme then the estimated additional cost of borrowing to the Revenue Budget from 2016/17 onwards would be £40k per annum (based on borrowing £1.0m @4%).

Other Issues

- 2.6 Pensions – The latest triennial valuation of Council's contribution rate for the North Yorkshire Pension Fund has taken place and comes into effect from

April 2014. The contribution is set based upon the returns to the fund and the recovery period for the fund. These are affected by economic fluctuations and with the economic downturn there has been an increase in contributions and it would be prudent to expect further increases for the next valuation in 2017. The 2013 triennial valuation of the pension fund has added an additional £85k to current service costs. A similar increase has been included within current projections for 2017. In addition 'auto enrolment' for the local government pension scheme comes into operation in April 2014. The Council has opted to implement this for existing staff at the latest possible date in 2017. There will be a cost implication associated with this if individuals that were previously not part of the pension scheme decide to join. Based on initial estimates the cost implication could be as much as £102k per annum, although not all may elect to remain in the scheme. It would still be prudent to factor in an estimate of the implications of this and therefore within the current projections £45k has been included.

- 2.7 Pay awards – the 2014/15 budget has allowed for an increase of 1%. Future years are also based on a 1% increase. Members' allowances are also increased in line with pay awards.
- 2.8 Election Costs – the Council currently elects 1/3 of its members for 3 years out of 4. There are district elections in 2014/15 to 2016/17; the allowance of £35k is removed for 2017/18. The council may wish to consider setting up an elections reserve so that the costs may be spread over four years rather than three.
- 2.9 Recycling income. Recycling contracts will be due for review in 2015. Recycling income provides a valuable funding source for the council it is dependent on both market prices and volumes. It has been assumed that income will remain at current levels post 2015 for both recycling credits and sales.
- 2.10 Charges for green waste will be levied again in 2015/16 and annually thereafter. The estimates for income showed that £140k each year. The initial take up of the service was higher than expected with income levels at around £190k. To be prudent the estimate for net income level is included at £140k. This will allow for any increase in costs not currently factored into expenditure.

3. Government Grants & Business Rates

- 3.1 2013/14 saw a fundamental change in the Local Government Finance System. Central Government Support for local authorities in the main comes from Revenue Support Grant and retention of a proportion of business rates (Business Rates Retention).
- 3.2 Under the previous grant system the Council was notified of its grant allocation from the business rates collected and pooled nationally. Post April 2013 the risks associated with business rate generation are now directly affecting the income of the Council. Business Rates is now performance driven. The Council is rewarded with additional income as its

business rates base grows and conversely carries the risk of reduced funding if the rates base diminishes.

Revenue Support Grant

- 3.3 The Council receives external support from Central Government through the distribution of resources within the Local Government Finance Settlement. The Comprehensive Spending Review announced in October 2010, set out the Governments spending plans for the four years from April 2011.
- 3.4 In autumn 2012 the Government provided settlement information covering 2014/15. As part of the confirmation of 2014/15 settlement the Government announced the provisional figures for 2015/16 and these have been included in the MTFS. The indications are that the RSG will fall by 28%.
- 3.5 The RSG will continue to see substantial reductions in future years. The predictions within this MTFS incorporate the best estimates based on Government announcements.
- 3.6 The MTFS assumes that RSG will reduce further from 2016/17 – 2017/18 by an average of 7% a year.

Business Rates

- 3.7 Under the Retention of Business Rates Scheme the Council retains a portion of business rates collected based on an assumed business rates income and the balance it pays to central government in the form of a tariff subject to RPI uplift.
- 3.8 The MTFS takes the estimated business rates income for 2014/15 and assumes no growth in business rates over the life of the plan. This strategy will be reviewed once the outturn for 2013/14 is confirmed and then reviewed annually and fed into the MTFS model. Using these figures the Council starts ahead of its target, and any increase in business rates should provide some resilience for the council against decreases in the NDR base and give potential for a windfall. The year on year increase in business rates within the MTFS reflects indexation of the retained element and tariff.
- 3.9 The indications are that the Council will continue to generate rateable income above its baseline funding need and under the business rates retention is able to keep its share of this. The rewards and risks associated with business rates are now shared between Central Government and the Council, and due to this risk a business rates contingency reserve has been created. This will assist the Council to mitigate against unforeseen reductions in the business rates base.
- 3.10 Members will be aware that the Council retains a percentage of business rates. It then pays a fixed tariff to the Government. Any income above this pre-determined target the Council keeps 50% of this sum with the remainder paid as a levy to the Government.
- 3.11 The Government has offered an incentive to authorities for them to keep a

proportion of the levy. This requires the formation of a Rates Pool and an understanding that in addition to greater rewards additional risk needs to be shared amongst the members of the pool.

- 3.12 In September it was agreed that the Council apply to form a business rates pool with North Yorkshire County Council (NYCC), Hambleton District Council, Richmondshire District Council, Ryedale District Council, and Scarborough Borough Council (who will act as host). The application was approved in December and the pool will commence on the 1 April 2014. The benefit of forming the pool is that the levy rate on growth above target is reduced to zero. This benefit will be shared between the pool members in accordance with the agreement. The MTFS has not currently factored in any additional income as a result of this agreement.
- 3.13 There were a number of announcements and changes to business rates announced in the autumn statement. Councils have been assured that they will not lose financially from the announcements.

New Homes Bonus

- 3.14 This funding started in 2011/12 and provided Authorities funding based on the number of new properties completed and long –term empty properties brought back into use. It is based on the amount of extra Council Tax revenue raised. There is also an additional payment for providing affordable homes. Payments for each eligible property are paid for six years which covers the span of this MTFS.
- 3.15 New Homes Bonus (NHB) is an unringfenced grant, which means local authorities are free to decide how to spend it, as they are in the best position to make decisions about local priorities. As unringfenced grant, NHB funds can be spent on either revenue or capital, strategic projects, or placed in a local authority's reserves.
- 3.16 The estimates are that the Authority's share of NHB will increase each year and this has been included within the MTFS. Currently the majority of NHB that the Council receives is being placed in an earmarked reserve for use on specific projects.
- 3.17 However, it is important to recognise that the NHB going forward is not "new money" from Central Government but rather a top slice of the total financial support available to local government. As such it reflects the move to directly reward planning authorities and stimulate the domestic market. The Council will in the short term continue with its existing plans for NHB.

4. Council Tax

- 4.1 The Council accepted the Governments offer of the council tax freeze grant for 2013/14. This equated to £34k and is payable in 2013/14 and 2014/15. A similar grant offer for 2014/15 has been offered and the MTFS assumes that this grant is taken.

- 4.2 The government has confirmed the level of increase in council tax above which a public referendum for 2014/15 is required at 2%. The MTFS assumes that this situation will continue and increases in council tax are set at this level.
- 4.3 The Council tax base for Craven District has only seen a modest growth in recent years. As a result of the introduction of the Local Council Tax Support Scheme and its impact on the council tax base. The forecast in the MTFS is that the base will remain static.
- 4.4 Support provided under the Local Council Tax Support Scheme acts as a discount on the tax base. The Council is currently providing 90% support to working age claimants through the scheme. With claimants paying 10% of their bill in 2014/15. There are options within the scheme to review this discount which can be reduced to require claimants to pay a larger proportion. The nationally accepted maximum is an average of 25%.
- 4.5 In addition within the collection fund (the council tax account) any surplus or deficit is shared amongst the major preceptors and billing authority. When setting the council tax any anticipated surplus or deficit is taken into account at that time. The MTFS contains a modest estimate for future year's surplus of £30k.

Localisation of Council Tax Support Scheme

- 4.6 The Comprehensive Spending Review announcement in 2010 included details of major reforms in the benefits system, part of which was to abolish Council Tax Benefit and replace in from April 2013 with a new scheme. The expectation being that this would generate savings of 10% in spending on council tax benefits.
- 4.7 The Council received £275k of additional grant to help fund the new scheme which was implemented in April 2013. This was to enable the Council to further refine the scheme during the year for commencement in 2014/15. Any increases in demand for support will have to be met from council resources whereas previously these were covered by Government grant. In addition the Council received £89k of grant to assist parishes with the impact on them. From 2014/15 these grants have been rolled into the total RSG and are not identifiable. It is expected that they will reduce over time in line with all other funding within the RSG.
- 4.8 There is an expectation from the Government that the Council will continue to assist parishes. An estimate of the availability of this support is included within the MTFS. The expectation is that the funds available for the support will reduce in line with the reductions in RSG.

5. Capital Programme

- 5.1 The draft capital programme for 2014/15 – 2017/18 is summarised in Table 2 below. Due to the finite resources to fund the programme, the options to confirm the funding of the 2014/15 programme are scheduled to be

presented to Members as part of the 2013/14 year end process.

- 5.2 The indicative programme for 2015/16 onwards shows that the investment in projects outweighs the current forecast of the Council's own resources. Alternative options need to be considered for the Capital Programme to remain sustainable. These options will include use of external borrowing, leasing, in year revenue budget support or earmarked reserves. All of these options have implications for the Revenue Budget. Contributions to specific reserves for IT, Vehicles and Building Maintenance are included as part of the Revenue Budget proposals.

Table 2: Summary Capital Programme

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
<u>Expenditure</u>				
Projects	1,296	1,940	685	730
Grants	312	312	312	312
Total Programme	1,608	2,252	997	1,042
<u>Resources</u>				
Grants	188	187	187	187
Council Resources	970	1,431	0	0
Balance to Fund	450	634	810	855

6. Balances & Reserves

- 6.1 The Council has a General Fund balance of £1,030k. The budget report for 2014/15 assessed that this was a prudent level in light of risks associated with the continuing financial uncertainties the Council is facing.
- 6.2 As part of the 2014/15 revenue budget consideration has been given to other reserves that the Council needs. This will enable it to smooth the year on year fluctuation in investment it needs for expenditure on projects and other commitments.
- 6.3 The MTFS assumes that contributions to these reserves will continue. The reserves are Building Repairs and Maintenance, IT replacement and development, replacement of the Vehicle Fleet, Insurance and Business Rates contingency. A total contribution of £290k to these reserves has been included as part of the MTFS forecasts.
- 6.4 Details of the Council's reserves and balances are provided at Annex 3. The 2014/15 revenue budget has planned support from reserves as part of the overall savings targets of £202k. In addition there are planned

contributions to reserves of £1,196k including £796k to the New Homes Bonus reserve. It is estimated currently that as receipt of the NHB grant increases until 2015/16 and then the contribution will level.

7. Revenue Budget

- 7.1 Taking 2014/15 as the base year, the impact of the assumptions in the section 2 to 6 on the revenue budget for the provision of services are detailed at Annex 1 and summarised in Table 3 below.
- 7.2 The figures in Table 3 and Annex 1 shows that whilst the 2014/15 budget has been funded the challenge going forward from 2015/16 estimates that and additional £316k of savings is required rising by a further £174k in 2016/17 and 2017/18 by £152k. The Council is clearly facing financial challenges which will require robust plans to deliver these savings.

Table 3: Summary Budget Position 2013/14 – 2017/18

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Net Expenditure Budget	6,580	6,464	6,605	6,779
Transfers to/ (from) Reserves	994	1,042	1,263	1,263
Government Grants	(2,386)	(2,037)	(2,132)	(2,060)
NDR Contribution	(1,924)	(1,947)	(1,986)	(2,026)
Collection Fund	(40)	(30)	(30)	(30)
Council Tax	(3,224)	(3,276)	(3,330)	(3,384)
Revenue Growth	0	100	100	100
Forecast (Surplus) / Deficit	0	316	490	642

- 7.3 In 2013/14 the Council implemented a savings plan which identified projects totalling £614k in 2014/15 rising by £230k to £844k in 2015/16 and by a further £240k in 2016/17 to £1,084k. The MTFS includes the value of the projects that have been achieved which total £506k by 2016/17 leaving £642k to be achieved. The savings plan is monitored on a quarterly basis as part of the budget monitoring reporting to Policy Committee.
- 7.4 In addition indications are that the delivery of a sustainable capital programme will require contribution from the revenue budget or reserves increasing pressure further.

8. Risks

- 8.1 The major risks for the Council continue to be sustaining income levels in

the current economic climate, and implementing the savings that are required to enable the Council to operate within available resources in the future.

- 8.2 The income generated for the Council from the Business Rates Retention Scheme carries risk. The Council stands to receive a greater portion from business rates than under the previous grant redistribution process. However the downside is that the Council now has to share the burden of reductions in business rates through appeals, revaluations, and business ceasing trading. This volatility can only be estimated for budgeting purposes and the actual year end position could be different. Therefore to mitigate the impact of this volatility a Business Rates Contingency Reserve has been established as part of the 2014/15 Revenue Budget.
- 8.3 It will be necessary to continue to ensure on-going savings in order to maintain the downward trajectory on net expenditure.
- 8.4 The Council will continue to protect front line services wherever possible. However in the context of on-going cuts in Government funding, pressures on income from fees and charges and Government intervention on Council Tax increases, the ability to continue to reduce costs, without impacting on the Council's ability to function effectively, will become increasingly difficult.

Revenue Budget Forecast 2014/15 – 2017/18

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Base Revenue Budget	5,880	5,880	5,764	5,924
General Inflation	0	90	95	99
Inflation Income Increases	0	(109)	(109)	(109)
Other Budget Adjustments	0	(54)	36	1
Pay & Pension Increases & Changes	0	36	150	192
Savings Plan – Green Projects	0	(79)	(12)	0
Net Cost of Services	5,880	5,764	5,924	6,107
Investment Income	(19)	(20)	(40)	(50)
Borrowing / Capital Costs	567	577	582	587
Support to Parishes	77	68	64	60
Contingency	75	75	75	75
Net Revenue Expenditure	6,580	6,464	6,605	6,779
Contribution to Reserves	1,196	1,195	1,369	1,369
Contribution From Reserves	(202)	(153)	(106)	(106)
Net Budget Requirement	7,574	7,506	7,868	8,042
<u>Financing</u>				
Other Grants (NHB & SPARSE)	(829)	(918)	(1,092)	(1,092)
Formula Grant (RSG)	(1,557)	(1,119)	(1,040)	(968)
Business Rates & SBRR Grant	(1,924)	(1,947)	(1,986)	(2,026)
Collection Fund Surplus	(40)	(30)	(30)	(30)
Council Tax	(3,224)	(3,276)	(3,330)	(3,384)
Total Funding – Grants & Local Taxation	(7,574)	(7,290)	(7,478)	(7,500)
Allowance for Revenue Growth Items	0	100	100	100
Forecast (Surplus) / Deficit	0	316	490	642

Summary Draft Capital Programme 2014/15 – 2017/18

Projects	2014/15 Proposed Programme £'000	2015/16 Forecasted Programme £'000	2016/17 Forecasted Programme £'000	2017/18 Forecasted Programme £'000
Strategic Housing (DFG's)	312	312	312	312
Waste Management Services (Vehicles)	439	405	245	290
Information Services (IT Projects)	156	180	110	110
Facilities & Property	701	1,325	300	300
Miscellaneous	30	30	30	30
Total	1,608	2,252	997	1,042

Estimated Funding Sources

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Brought Forward Resources	1,716	976	0	0
In Year - Capital Receipts	0	455	0	0
In Year - Revenue & Reserves	230	0	0	0
In Year - Grants	188	187	187	187
MRP Funded Borrowing	450	634	510	331
Total Resources	2,584	2,252	697	518
Resources Applied To Programme	(1,608)	(2,252)	(697)	(518)
Capital Receipts to Carry Forward	976	0	0	0
Shortfall in Resources to fund programme or Additional Borrowing	0	0	300	524

Estimated Balances & Reserves

Reserve	2014/15				2015/16			2016/17			2017/18		
	April 2014 £'000	Receipts £'000	Planned Utilisation £'000	April 2015 £'000	Receipts £'000	Planned Utilisation £'000	April 2016 £'000	Receipts £'000	Planned Utilisation £'000	April 2017 £'000	Receipts £'000	Planned Utilisation £'000	April 2018 £'000
Building Control	25			25			25			25			25
Planning	360		(14)	346			346			346			346
Enabling Efficiencies	258	20		278	20		298	20		318	20		328
Insurance	0	30		30	10		40	10		50	10		60
Business Rates Contingency	0	120		120	50		170	50		220	50		270
New Homes * Bonus	803	796	(408)	1,191	885	(138)	1,938	1,059	(106)	2,891	1,059	(106)	3,844
Vehicles	50	130		180	130		310	130		440	130		570
ICT*	28	50	(10)	68	50		118	50		168	50		218
Buildings	10	50		60	50		110	50		160	50		210
ERDF & LABGI	57			57			57			57			57
Bishopdale Court	5			5			5			5			5
Partial Exemption	17			17			17			17			17
Edith Stead Bequest	2			2			2			2			2
Total Earmarked Reserves	1,615	1,196	(432)	2,379	1,195	(138)	3,436	1,369	(106)	4,699	1,369	(106)	5,952
General Fund	1,030			1,030			1,030			1,030			1,030
Total Reserves	2,645	1,196	(432)	3,409	1,195	(138)	4,466	1,369	(106)	5,729	1,369	(106)	6,982

*Includes committed contributions for capital programme in 2014/15 £230k re IT projects (£10k) & Town Hall (£220k)