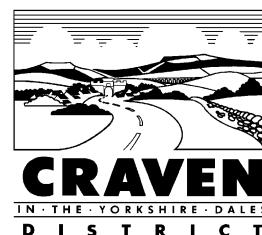


Policy Committee – 4 March 2014

LONGER TERM FINANCIAL STRATEGY (LTFS) 2014/15 TO 2020/21



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 additional information on the forecast financial position for the Authority over the next seven years.

2. Recommendations

- 2.1 That the longer term financial strategy covering the period 2014/15 to 2020/21, as set out in this report, be noted.
- 2.2 That the Medium Term Financial Strategy is extended to cover a six year period.

3. Introduction and Background

- 3.1 The Medium Term Financial Strategy (MTFS) for 2014/15 to 2017/18 was submitted to this Committee on 11th February 2014. The MTFS enables a longer term strategic view to be taken when decisions are made that have a financial impact beyond the annual budget.
- 3.2 Following discussions earlier in the year, the Leadership Team agreed that a Long Term Financial Strategy (LTFS) should also be produced in order to enable the Council to assess its financial sustainability over a ten year period. However, given the continuing volatility and uncertainty around Government funding, this LTFS has been based on a seven year projection.
- 3.3 The LTFS has been prepared in the context of the national economy, the reduction of resources in the public sector, and the impact of the changing funding model for local government. It also takes account of the most up to date information on Government funding levels and cost pressures.
- 3.4 Going forward, in light of the changes that have taken place since the 2014/15 Budget and MTFS were set, and in order to avoid duplication of effort, it is recommended that this Committee approves that the period of the MTFS is extended from four to six years. It was agreed at the Policy Committee on 11/02/14 that the MTFS should be updated and presented on a bi-annual basis.

4. Key Assumptions

- 4.1 The LTFS takes as its starting point the four year MTFS. The MTFS is based on a series of estimates and assumptions about future expenditure and income levels as well as government funding and local financing. These estimates and assumptions are always based on the best information available at the time, but will obviously be susceptible to fluctuations and changes to both national and local policy. Where subsequent changes to the MTFS have already been confirmed, or more up-to-date information is available, the model has been updated to reflect these changes, i.e.
- Increase in Rural Delivery Services Grant from £33k to £40k
 - Increase in forecast interest rates from 1% to 1.25% from 2017
 - Government change in policy re treatment of levies in the calculation of referendum limits applicable from 2014/15. Council Tax increase amended from 1.63% to 1.99%.
 - Acceleration of cuts in Revenue Support Grant Funding from 7.5% to 25% per annum in 2016/17 and 2017/18.
 - Forecast additional Business Rates income of approximately £655k in 2014/15 (see Agenda item 6, Q3 Revenue Budget Monitoring Report).

The LTFS then extends the MTFS based on a number of assumptions.

4.3 Income assumptions:

- **Changes in the tax base**

The 2014/15 Revenue Budget incorporates a 1.99% increase in the Council Tax Base. Whilst the MTFS had assumed a standstill position, the LTFS allows a prudent estimate of 0.75% growth per annum. 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. There are options to reduce this further (the nationally accepted maximum is an average of 25%) which would assist in increasing the tax base for the District. However, this would need to be balanced against any consequent reduction in collection rates.
- **Collection Fund**

The Council can generate a surplus or deficit on its Collection Fund if collection rates for Council Tax or Business Rates income vary from original estimates. Based on historic information, the model has assumed a continuing surplus of £30k per annum on the Council Tax Collection Fund (the collection rate is estimated at 98.25%), and a zero surplus on Business Rates Collection.
- **Revenue Support Grant**

Years one and two of the MTFS are based on the RSG figures announced in the December settlement. A reduction of 7% per annum was then applied for the following two years. Based on the latest forecast from our consultant at Sparse, this reduction has been increased, so that by 2020/21 the amount of funding from RSG will have reduced from £1,522k to £162k.

- **Council Tax**
With effect from 2015/16, the LTFS assumes an increase of 1.99% on the level of Band D Council Tax. This is based on the “2014 Act” which received Royal Assent on 30/01/14, and no longer requires authorities to strip out levies.
- **Business Rates Funding**
The LTFS assumes inflation on Business Rates at 3%, as well as a modest increase for growth of 1.5% per year, including the beneficial impact of joining the North Yorkshire Business Rates Pool. We are currently in the first year of the Business Rates Retention Scheme, and, as result, this funding stream is the most uncertain. It carries an element of risk and reward, so will need to be closely monitored.
- **External Income**
The model assumes that approx. 60% of external income will be subject to inflationary increases. An average inflation rate of 2.8% has been applied to these income streams.
- **Interest on surplus funds**
The Council’s treasury management adviser, Capita Asset Services, has forecast that the Bank Rate will start to rise from 2016, increasing to 1.25% by March 2017. The model assumes a further gradual rise in rates to 2.00% by 2020/21.

4.4 Expenditure assumptions:

- **Budgets are cash limited**
The LTFS reflects this policy, making no provision for service growth during the term. A corporate contingency of £75k has been provided to manage unexpected service pressures during the year. Any growth will need to be covered by corresponding savings.
- **Interest on borrowing**
The forecast shows interest on borrowing continuing at the same level. There are no plans to take out any additional external borrowing. The PWLB loan of £500k is repayable in 2019/20, and consideration will need to be given to reducing the level of borrowing, which would have a positive impact on the revenue budget.
- **Inflation**
The MTFs assumes a 1% increase in salary costs over the four year term. The LTFS increases the inflationary provision for salaries to 2% for the following years. Inflation on other operating costs has also been set at 2%.
- **Support to Parishes**
Following the introduction of the Council Tax Support Scheme, the Council is providing support to parishes to assist them with the impact on their tax bases. The LTFS assumes that the support to parishes will continue, but that it will reduce each year in line with the reduction in

RSG.

5. Forecast financial position

- 5.1 The LTFS at Appendix A gives an overview of the Council's forecast financial position. The Strategy integrates three key elements, i.e. the revenue budget, capital investment and balances and reserves.
- 5.2 The forecast revenue position show total additional savings required of £689k over the seven year term. However, once the model is adjusted to include the agreed red and amber savings targets from the Council's current Savings Plan, the position changes so that we have a shortfall of just £70k over the period, i.e. a balanced budget over the term of the LTFS.
- 5.3 The LTFS also shows a balanced Capital Programme over the life of the plan. The model has been updated to take account of additional funding from the Vehicles / IT/ Buildings reserve. No new capital receipts have been built into the projection.
- 5.4 General Balances provide financial protection against adverse variations in assumptions, shortfalls in the delivery of plans and unforeseen events. Earmarked Reserves are designated for specific purposes. A forecast summary of the Council's balances and reserves position over the term of the LTFS is shown in the last section of Appendix A.
- 5.5 The assumptions made in relation to the Balances and Reserves are that the additional Business Rates income in the current financial year will be used to create the £300k Business Rates Contingency Fund and that the remaining balance will be transferred to the Vehicles / IT / Buildings Reserve. This enables the Council to reduce the revenue contributions to Reserves previously set out in the MTFs.
- 5.6 The creation of the Business Rates Contingency Fund then allows the Council to review the level of General Fund Balance that it holds. The GFB has been maintained at a high level over the last few years to mitigate against the impact of the new Government funding models. Reducing the GFB to 8% of Net Revenue Budget from 2015/16 gives the Council additional flexibility. In the medium term, the Council could look to reducing the pension deficit, or repaying external borrowing in order to further relieve pressures on the revenue budget.
- 5.7 The increase in the Balances and Reserves position relates to the increase in the New Homes Bonus Reserve. Additional information on project plans is required in order to show the planned draw down on the reserve. To date, the Council has top sliced 10% from the NHB funds to fund revenue and make the £12k annual contribution to the Yorkshire Dales National Park. In 2014/15 approx. £70k of funding for Community Grants will also be covered by the New Homes Bonus. The Council is in a strong position because the balanced budget over the short and longer term has not been achieved through the use of NHB funding. This is something the Council can still consider as a future option.

- 5.8 The format of the LTFS allows the Council to model different scenarios, based on changes in the underlying assumptions. The accuracy of these assumptions will be kept under review, with action being taken to update them, as necessary.
- 5.9 In summary, based on the assumptions set out above, the LTFS shows a sustainable financial position for the Council over the longer term. This is dependent on achieving the current savings targets, or, if necessary, identifying alternative compensatory savings. Early confirmation of future savings in 2014/15 will ensure the strategy remains viable.

6. Implications

6.1 Financial and Value for Money Implications

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

6.2 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.

6.3 Contribution to Council Priorities

The LTFS provides the framework for the Council's financial sustainability and resilience which are crucial to delivering its priorities.

6.4 Risk Management

All risks are clearly identified throughout the report.

6.5 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.

7. Consultations with Others

CLT

6. Access to Information : Background Documents

None

7. Author of the Report

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8. Appendices

Appendix A – Longer Term Financial Strategy