SSDC Medium Term Financial Strategy and Plan

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1. Purpose of the Report

To advise members of the Medium Term Financial Strategy and the current position on the MTFP (Revenue Budgets for 2017/18 to 2021/22).

2. Forward Plan

This report was included on the District Executive Forward Plan with an anticipated Committee date of September 2016.

3. Public Interest

This report outlines SSDC's overall budget strategy and how the Council will manage its finances over the next five years. It also sets out what assumptions are being made and how much is required in savings each year to balance the books.

4. Recommendations

That the District Executive:

(1) Approve the current Medium Term Financial Strategy and Efficiency Plan.

(2) Approve that £104,000 in Council Tax Reduction Grant is passported to support Town and Parish Councils' Precepts.

(3) Approve in principle that South Somerset District Council remains in the Somerset Business Rates Pool for 2017/18 with a final decision delegated to the Assistant Director – Finance and Corporate Services in Consultation with the Leader and Finance Portfolio Holder.

(4) Note the current position and timetable for the Medium Term Financial Plan.

That the District Executive recommends to full Council:

(5) Approval to utilise the capital receipts outlined in the Efficiency Strategy attached at Appendix A for revenue costs.

(6) To note that a 4-year Rate Support Grant settlement deal has been made available by the Department for Communities and Local Government and that the terms offered for South Somerset includes a negative grant in 2019/20 whereby £330k would be collected locally for return to the Government.

(7) To authorise the Leader and/or Portfolio Holder for Finance and Legal Services to make representations to the Department for Communities and Local Government, and others, to seek to improve the 4 year deal RSG offer.

(8) To delegate the acceptance (or otherwise) of the final four-year deal offer to the Leader in consultation with the Portfolio Holder for Finance and Legal Services, the Leader of the Opposition, and the Assistant Director – Finance and Corporate Services.

5. Background

This is the first report outlining the Medium Term Financial Strategy, Capital Strategy, Efficiency Plan and Medium Term Financial Plan for the financial year starting in 2017/18. This report updates members of the current position and the revised strategy for achieving balanced budget over the medium to longer term.

6. Introduction

The Medium Term Financial Strategy (MTFS) outlines how the Medium Term Financial Plan (MTFP) i.e. the budget will be delivered over the medium to long-term. The MTFP at South Somerset spans three years with a further two years added to show the likely longer-term scenario. The Medium Term Financial Strategy links the resources required to deliver the Council Plan, the Capital Strategy and the Council's other strategies.

7. The Council Plan

The authority approved the Council Plan in March 2016. The Medium Term Financial Strategy, Capital Strategy and Medium Term Financial Plan reflect the revised Corporate Plan. The Plan is set over 5 years but the Action Plan is approved annually as part of budget setting to ensure it is affordable.

8. The Current Position

Currently the MTFP shows a projected budget gap for each year of the plan. The figures include all estimates for pay awards, council tax, government grant, and inflation. Therefore the main drive is to find savings within the plan to ensure the on-going financing of the Council Plan and key strategies.

The DCLG outlined the details required to treat revenue costs as capital expenditure in December 2015 and multi-year settlements and Efficiency Plans in March 2016. SSDC must apply if it wishes to accept the offer of fixing its Government settlement for the next three years by the 14th October 2016. As this forms a key part of the Medium Term Financial Strategy this should be approved by full Council.

This report is based on various assumptions pending clarity on the following:-

New Homes Bonus – following consultation the affirmation of its continuation, split between upper & lower tier, and amount allocated;

Revenue Support Grant – the figures currently show a reduction in RSG which accumulates to a "negative" RSG in 2019/20 if SSDC agrees to an Efficiency Plan;

Non-Domestic Rates (NDR) – last year SSDC was allocated on its “NNDR1” calculations. It is not yet known how revaluation will affect the levels of NDR expected for 2017/18 and this will need to be assessed over the autumn once we have more details. Longer term the Government is just consulting on 100% Retention of Business Rates in preparation for a launch in 2019/20;

Council Tax – assumes SSDC can increase Council Tax by £5 per annum without impacting on referendum limits;

Devolution bids – a successful devolution bid would be likely to be announced in the autumn and we have yet to ascertain what impact this will have if any on SSDC finances.

9. Expected Outcomes from the Strategy and Plan

The Council needs to deliver a balanced budget over the term of the plan. A balanced budget means that balances or reserves are not used to meet on-going expenditure commitments. SSDC will look to ensure sound plans are in place to balance the budget over the medium to longer term rather than year to year balancing.

The Council also needs to achieve as much stability as possible for both service delivery and staff in planning the moving of resources (both money and people) to areas of agreed priority.

SSDC will continue the drive to make services as efficient as possible through its Transformation Programme.

In addition the authority will need to continue to add value in procuring goods and services and manage its assets effectively.

10. Efficiency Strategy

Central Government outlined in December 2015 that local authorities will be able under certain circumstances to utilise capital receipts for revenue expenditure for certain purposes. These include:-

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief-Executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, selling services to others).

SSDC would benefit from this approach over the next three years particularly with regard to setting up commercial or alternative delivery models, and transformation. The key areas that could be funded from capital receipts but are classified as revenue expenditure are redundancy costs and the legal costs of setting up of commercial or alternative delivery models.

The requirement will be to list each project that plans to make use of the capital receipts flexibility, and that it details the split of up front funding for each project between capital receipts and other sources, with a project by project basis a cost benefit analysis is included to highlight the expected savings. The strategy in future years will monitor the performance of projects approved in previous years.

The Strategy as attached at Appendix A must be approved by Full Council. A revised strategy may be replaced by another during the year.

11. Efficiency Plan

In addition local authorities were also invited to accept a multi-year settlement by the 14th October 2016 so long as they had a published Efficiency Plan. The Efficiency Plan must show how the authority will benefit from the four year settlement and must have reference to the Council Plan, the Medium Term Financial Strategy, the Asset management Plan and any devolution bid.

In effect this would fix the following grants and provide some certainty in funding:-

	Revenue Support Grant (RSG) £'m	**Rural Services Delivery Grant £'m**
2016/17	1.675	165.3
2017/18	0.803	133.4
2018/19	0.269	102.6
2019/20	-0.330	133.4

In addition, tariffs and top-ups in 2017-18, 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities, but in the final year may be subject to the implementation of 100% business rates retention. Any increase in tariff reduces the amount of business rates an authority can retain in a particular year.

It has been made clear that all four years must be accepted and that under no circumstances will any authority be better off by not accepting the offer. This is a difficult decision for SSDC Members to make as the offer includes a "negative" RSG in year four. This would mean in effect that £330k from local taxation would be returned to central Government (the equivalent of a 3.7% increase in Council Tax).

It should be noted that South Somerset currently receive lower per capita funding from central government than neighbouring authorities where urban service delivery costs are lower, but where taxpayer wages are typically much higher than those in a rural area.

Although the deadline for this offer is close, recent dialogue with DCLG has clarified that Treasury did agree to remove any "negative RSG" for 2017/18 and 2018/19 and a meeting has been offered with a minister to respond to the final issue of its inclusion in 2019/20. It is therefore hoped that the offer can be improved.

Although the current offer is not a "good deal" for South Somerset agreement may still be the best option to add some stability and certainty to the Medium Term Financial Plan. Members may wish to consider this given the uncertainty caused by the UK exiting the EU and the Treasury seeking further savings from Government Departments. Year four may be amended in any case if the 100% Retention of Business Rates is introduced in 2019/20.

It is therefore recommended that Members approve that further negotiations continue with the DCLG and delegate the acceptance (or otherwise) of the final four-year deal offer to the Leader in consultation with the Portfolio Holder for Finance and Legal Services, the Leader of the Opposition, and the Assistant Director – Finance and Corporate Services.

12. Capital Strategy

This Capital Strategy outlines how SSDC will utilise its capital resources to deliver the Council Plan and key strategies. SSDC held £35 million in capital receipts at the end of the 2015/16 financial year. However, once commitments are taken into account the authority has approximately £18 million unallocated to spend on new schemes. A review of possible bids for the next five years has shown a need of approximately £21.2 million.

The authority has a considerable requirement for capital resources through its Transformation, Regeneration, and Income Generation Boards. Some of these require considerable revenue costs to set up as well as capital. It is therefore important that SSDC is able to take up the offer of “Flexible Capital Receipts” to ensure that its ambitions can be delivered. Therefore the strategy will be as follows:-

Each project will be reviewed initially on a commercial basis so that schemes will be considered utilising “Internal Borrowing” where bids can be made for loans that repay both capital and interest at PWLB rates;

External borrowing will be considered on a project by project basis for commercial projects so they can in effect be “stand alone” repaying the capital sum and a profitable return to SSDC without affecting the day to day running of the Council. The Treasury Management Strategy currently allows up to £12 million in borrowing;

SSDC will utilise the ability to 2019/20 to use new receipts from property, plant, and equipment for revenue expenditure if required;

The level of capital receipts will be monitored to ensure that community and non-commercial projects that benefit residents and businesses can continue to be funded from available resources;

District Executive has delegated authority to approve the use of up to 5% of capital receipts in any one year (approx. £900k). Approvals beyond this sum must be agreed through full Council.

13. Strategy for New Homes Bonus

Currently a sum equivalent to 80% of the average annual council tax is received in grant for every new home once occupied. This sum is payable for six years with an additional bonus of £280 (80% of £350) for every affordable home occupied. However, local authorities are currently awaiting the outcome of the consultation process carried out last year. This is likely at the very least to reduce the sum payable to four years as one of the outcomes.

The agreed strategy for New Homes Bonus is to mainstream it with Revenue Support Grant to maintain services. The maximum support from NHB in any one year for ongoing expenditure has been set at £3 million (10% of SSDC’s gross spend). In addition it will forward fund the current and next two year's budget giving the authority time to make any cuts necessary in a measured way as NHB funding is reduced and possibly even withdrawn.

14. Strategy for Non Domestic Rates Retention (NDR)

The budget set for Non Domestic Rates has historically been set around the central Government baseline. The most prudent level to set NDR for any authority is at the safety net level as this is the guaranteed level of income for any authority. However, taking this course of action requires more budget savings from services that may ultimately not be required. The strategy is therefore to assess the expected outturn for 2016/17, the new rating list, and the budget for 2017/18 and set the budget based on the most reasonable set of assumptions at that time. The main risks are revaluation, economic growth, and appeals. The estimates currently shown within the MTFP are based on the Government's baseline figures for 2017/18, 2018/19, and 2019/20. This will be updated as the budget process progresses.

SSDC agreed to participate in the Somerset NDR Pool for 2016/17. The other member authorities of the pool are Bath and North East Somerset, North Somerset, Somerset County Council, Mendip District Council, Sedgemoor District Council, and Taunton Deane District Council. The pool enables the partners to retain more income from local growth by reducing the levy paid to central Government. The additional income earned from the pool in 2015/16 was £15k against an expected £340k initially and £90k mid-year. The overall pool surplus was £1.3 million. The reduction for SSDC was due to the level of successful appeals in 2015/16.

The expected pool surplus is expected to total £2 million for 2016/17 with £0.2 million income to SSDC.

The partner authorities need to decide each year whether to continue to pool. If one or more of the member authorities withdraw by the end of October the pool members can reapply to retain the remaining pool. If a pool member decides to withdraw later the pool in effect collapses. Each authority can review its individual settlement details from central Government before it makes a final decision. Although it is likely that the pool will dissolve for 2017/18 because of the risk of revaluations it is still worth assessing. It is therefore recommended that the final decision is delegated to the Assistant Director – Finance and Corporate Services in consultation with the Leader of the Council and the Finance Portfolio Holder. This will ensure that the authority can use its latest information available before the final decision is made.

15. Strategy for Balances and Reserves

Reserves are set aside for specific purposes whereas balances are retained to meet unforeseen risks. A regular review of financial risks to assess the optimum levels of balances and reserves will be reported to members every quarter. This ensures that the authority has sufficient funds to meet its key financial risks. The strategy remains that balances remain at a level that covers these key risks.

16. Reviewing the Strategy

This strategy will naturally span the life of the Council Plan but will be reviewed annually to take into account changes within and external to the organisation. In more uncertain times the strategy will be reviewed more frequently.

17. The Medium Term Financial Plan

All work on the MTFP is based on current estimates and assumptions. Figures provided at this stage are indicative and will continue to be worked on as and when more information becomes available. The table below shows the estimated additional expenditure required in future years, offset by increased income and savings already identified.

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Base budget	17,291.3	16,377.6	16,183.5	16,028.0	16,211.5
Additional payroll requirement	393.1	384.9	161.9	151.4	198.7
Inflation allowance on contracts	211.4	215.6	219.9	224.3	228.8
Unavoidable Budget Pressures	501.3	292.1	322.8	319.8	322.8
Savings	(1,003.0)	(1,000.0)	0.0	0.0	0.0
Revenue effects of Capital Programme	170.1	4.7	30.3	(5.9)	30.4
Once-Off Expenditure	(382.0)	(10.0)	0.0	0.0	0.0
Total Budget Requirement	**17,182.2**	**16,264.9**	**16,918.4**	**16,717.6**	**16,992.2**
Financed by:					
Revenue Support Grant	802.6	268.9	0.0	0.0	0.0
Council Tax Reduction Scheme Grant to Town and Parish Councils	(104.1)	(34.9)	0.0	0.0	0.0
Rural Services Delivery Grant	133.4	102.6	133.4	0.0	
Transition Grant	57.0				
Council Tax Precept	9,058.8	9,326.9	9,584.6	9,841.5	10,104.9
Council Tax Funding for the Somerset Rivers Authority	0.0				
Business Rate Income	17,760.0	18,290.0	18,880.0	19,397.2	19,397.2
Business Rate Tariff	(14,340.0)	(14,770.0)	(15,240.0)	(15,697.2)	(15,697.2)
Negative Revenue Support Grant to be Deducted from Business Rate Income			(330.0)	(330.0)	(330.0)
Confirmed New Homes Bonus to Support Revenue Budget	3,000.0	3,000.0	395.9		
New Homes Bonus Requirement Future Years	0.0	0.0	2,604.1	3,000.0	3,000.0

Once-offs funded from revenue balances	10.0	0.0	0.0	0.0	0.0
	16,377.6	**16,183.5**	**16,028.0**	**16,211.5**	**16,474.9**
Budget Shortfall	**(804.6)**	**(81.4)**	**(890.4)**	**(506.1)**	**(517.3)**

18. Assumptions for the Plan

There are some principles that underpin the plan. These are as follows:

- SSDC will achieve a balanced budget with the use of balances where appropriate to assist with longer term financial planning;
- That capital bids will be financed through capital receipts, or borrowing where appropriate;
- That SSDC will remain within any government capping levels to avoid public expense of holding referendums;
- In agreeing new Capital Schemes the revenue implications will be fully costed and added to the MTFP;
- Pay inflation is linked in budgeting terms to government estimates – 1% per annum for the next four years and £200k per annum average additional pension contributions until 2018/19;
- Supplies and Services inflation is linked only to contractually agreed increases;
- All new and revised strategies must review the focus on current activities to realign resources. In exceptional cases where there are additional resource requirements these will be fully costed and added to the MTFP.

In terms of financing the plan:

- Reductions in Revenue Support Grant in line with the four year settlement deal;
- Business Rate Retention will be in line with the estimates set within the NNDR1 calculations;
- New Homes Bonus will continue to fund £3 million per annum over the term of the Plan. This is based on a reduction to five and then four years NHB following the latest Government consultation;
- Council Tax is nominally linked to expected Consumer Price Index (CPI) inflation (currently estimated at 2% for 2016/17) but members may approve an increase of up to £5 depending on the requirement to fund additional inflationary pressures on supplies and services;
- That the base rate is forecast to remain low (currently 0.25%) at least in the short term – the Treasury Reserve will be utilised to smooth any short-term reductions in interest rates.

Additional funding requirements can be added in meeting one of the following criteria:

- Legislative changes, e.g. welfare reforms.
- Growth in the community, e.g. increase in number of dwellings serviced by refuse collection.
- Ensuring income budgets are in line with actual income received and future forecasts.
  Other potential changes, e.g. contract re-tendering.
- Where members have already agreed additional costs through the approval of the corporate plan or a specific strategy.
- An additional investment made to drive efficiency and/or performance to deliver efficiency savings.

19. Council Tax

At present the Medium Term Financial Plan reflects an annual increase of 2% in Council Tax per annum in line with general inflation. Members approved an increase of 1.95% for 2016/17. In the settlement announcement for 2015/16 District Councils were given the ability to raise Council Tax over the next four years by £5 per Band D per annum. A 2% increase adds £3.01 to a Band D property. Approving a £5 increase over the next three years would reduce the funding gap by £117k per annum or £351k over the next three years.

20. Council Tax Reduction Scheme

Members approved the current Council Tax Reduction Scheme in January 2016. A Scrutiny Task and Finish group is currently reviewing a number of aspects of the scheme. The Finance and Legal Portfolio Holder will make recommendations to District Executive and full Council of any proposed amendments to the scheme by the statutory deadline of the 31st January 2017.

The tax base was set before the announcement was made that the Somerset Authorities could precept for the SRA and SCC had not made a decision at the time around the precept for Adult Social Care. At the first quarter an overspend of £176k was being estimated for the year. Sufficient funds have been retained within the Collection Fund to fund this in 2016/17 but it will have a negative impact on the tax base for 2017/18.

Since the Government announced that all Revenue Support Grant will cease a letter has been sent to all of the Town and Parish Councils outlining that their grant will reduce to zero by 2019/20 to enable them to plan ahead for their budgets. The grant recommended to members to passport for 2017/18 is £104,000. Members are requested to approve this to enable the Town and Parish Councils to have more certainty ahead of setting their budgets.

21. The Somerset Rivers Authority (SRA)

The Government amended the Somerset Council Tax Levels to a notional amount to allow each of the Somerset authorities to raise 1.25% (£1.85 per band D for SSDC) interim funding for the Somerset Rivers Authority (SRA). This enables the Somerset authorities to raise council tax for other service needs up to the referendum limits. Members agreed at full Council on the 21st January 2016 to precept for the additional sum and to passport it to the SRA.

The intention is that the amount will then be reduced when the SRA becomes a separate precepting body. The amount raised by South Somerset will then transfer to the SRA to ensure that taxpayers are not in effect levied twice. Although it is expected that the process will be underway this will not be in place for 2017/18 and it is therefore likely that members will be requested to continue to precept for a second year.

22. Savings

Current estimates are that £2.8 million in savings will be required over the next five years. This is on the assumption that the Transformation Programme will deliver £2 million within the next two years. The Income Generation Board has a target of £800k and this will be added as and when individual projects are approved.

The MTFP is also based on the current Council Plan that was approved in March 2016. The Action Plan for 2017/18 will be updated and approved with the budget in February 2017.

Savings and additional income are being reviewed through:-

Transformation Board – members approved a report in March 2016 which outlined £2 million savings;

Income Generation Board - actively increasing our income, earning income through new sources, and marketing existing services – target set for £800k over 4 years;

Strategic Alliance with Sedgemoor District Council – reviewing ways of joint working and joint initiatives for savings and efficiency – there are currently 9 projects in scope for discussion in September;

Management Board – procurement, assets and other savings.

Interest rates have reduced to 0.25%. It is possible that interest rates will reduce even further in the short to medium term to stimulate the economy post Brexit. Therefore any increase in interest rates will not be factored in until at least 2018/19. SSDC has a reserve to smooth out short term interest rate reductions and this can be utilised to stabilise the budget for 2016/17 and possibly 2017/18. A drop of 0.25% in interest rates reduces income by £125k.

23. Capital Projects

New capital projects will be presented to District Executive in December 2016.

24. Public/Stakeholder Consultation

Members will receive regular reports as the budget progresses. In addition Scrutiny Committee will be consulted during the process and a workshop will be held to discuss the budget.

Public and stakeholder consultation will continue to take place on specific budget savings proposals throughout the term of the Medium Term Financial Plan.

25. Risks to the Medium Term Financial Strategy and Plan

The Strategy and Plan make regular risk predictions. The key risks to the plan are currently seen as:

- Retention of Business Rates – it is still too early to predict the budget for 2017/18. The current figures reflect the baseline and income levels will be assessed in the autumn once the outcome of revaluation is known.

- New Homes Bonus - There is a risk that NHB will cease or reduce beyond the reductions already factored in of a reduction to five years in 2017/18 and four years thereafter;

- Revenue Support Grant – there is a risk of greater cuts than currently projected but this can be mitigated to a certain extend by accepting the four year deal;

- Council Tax Reduction Scheme – the approved scheme will be reviewed by District Executive in December or January. Further demand for benefits will remain a risk as will a possible increase in arrears for non-payment. In addition to this the Council Tax increases for the SRA and Adult Social Care in 2016/17 will need to be added.

- Other Government legislation and new requirements for local authority will remain a risk as funding does not always follow the requirement. These include proposals to transfer to Universal Credits;

- Funding for the Somerset Rivers Board is likely to need to be continued and/or increases;

- Following the UK's decision to leave the EU it is likely in the short term that interest rates may reduce further to 0.1%. SSDC has invested in a Property Fund and there has been an immediate drop in value of 4% - however yields are not expected to be impacted in the short to medium term. If consumer confidence reduces there may be an impact on SSDC's income streams such as planning, licencing, theatre income, and car parking.

- Services may be cut by other authorities which may lead to some of the costs being borne by SSDC.

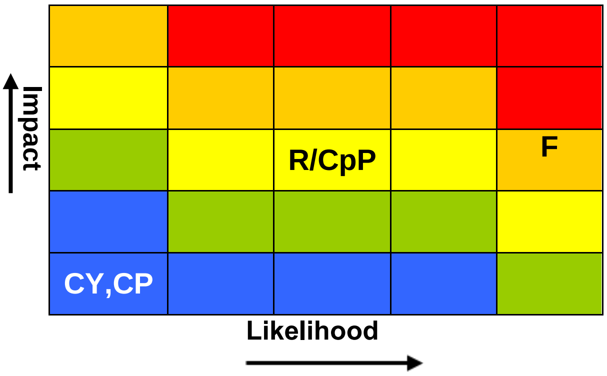
The key risks are determined and agreed by Management Board (MB) and subsequently outlined in each budget setting report to Council. A senior officer is identified to monitor and manage that risk.

26. Budget Deadlines

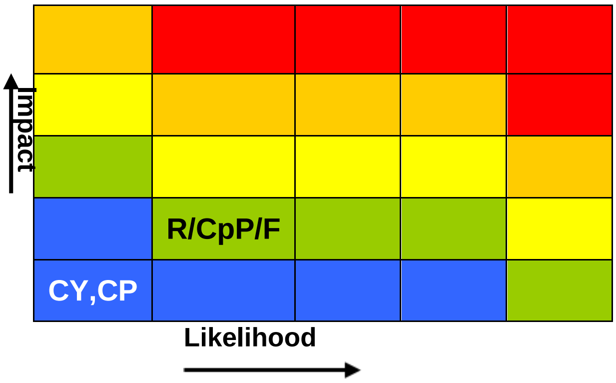
Scrutiny Committee:	September 16, December 16, January 17, February 17
District Executive:	October 16, December 16, January 17, February 17
Scrutiny Budget Workshop:	December 2016

27. Risk Matrix

Risk Profile before officer recommendations



Risk Profile after officer recommendations



Key

Categories			**Colours** *(for further detail please refer to Risk management strategy)*		
R	=	Reputation	Red	=	High impact and high probability
CpP	=	Corporate Plan Priorities	Orange	=	Major impact and major probability
CP	=	Community Priorities	Yellow	=	Moderate impact and moderate probability
CY	=	Capacity	Green	=	Minor impact and minor probability
F	=	Financial	Blue	=	Insignificant impact and insignificant probability

28. Council Plan Implications

As outlined in the body of the report.

29. Carbon Emissions and Climate Change Implications

Not applicable.

30. Equality and Diversity Implications

Each saving put forward by managers must outline any impact the saving will have on diversity and equality to ensure that any issues are highlighted to members before a decision is made. An annual report will be made to the Diversity and Equality Panel of all savings that have an impact on any group.

31. Background Papers

District Executive, February 2016
Council Reports, February 2016