Medium Term Financial Strategy and Plan

Executive Portfolio Holder:	*Tim Carroll, Finance & Spatial Planning*
Assistant Director:	*Donna Parham, Finance & Corporate Services*
Service Manager:	*Amanda Card, Finance Manager*
Lead Officer:	*Jayne Beevor, Principal Accountant - Revenues*
Contact Details:	*Donna.parham@southsomerset.gov.uk or (01935) 462225*

1. Purpose of the Report

To advise members of the Medium Term Financial Strategy (MTFS) and the current position on the Medium Term Financial Plan (MTFP) (Revenue Budgets for 2015/16 to 2019/20).

2. Forward Plan

This report appeared appear on the District Executive Forward Plan with an anticipated Committee date of October 2014.

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.

(2) Approve that £351,410 in Council Tax Reduction Grant is passported to support Town and Parish Councils' Precepts.

(3) Approve that a specific reserve of £500,000 is set up for Non Domestic Rate volatility.

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

5. Background

This is the first report outlining the Medium Term Financial Strategy, Capital Strategy and Medium Term Financial Plan for the financial year starting in 2015/16. This report updates members of the current position and the revised strategy for achieving an annual balanced budget.

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 beyond the current Council Plan. 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 February 2012. The Medium Term Financial Strategy, Capital Strategy and Medium Term Financial Plan will finance the overall delivery of the Council Plan.

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.

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.

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 also needs to continue the drive to make services as efficient as possible.

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

10. Capital Strategy

The Capital Strategy is that new receipts will be released for new capital schemes. A further sum of capital receipts will be released to meet needs that deliver the Corporate Plan once the effect on revenue is assessed and can be funded within the Medium Term Financial Plan.

The "Spend to Save" scheme enables projects to come forward at any time which prove to give a return of the same or greater than the loss of interest that could be earned (this can include returning the capital utilised). This allows for individual schemes showing innovation, efficiencies, and income generation to be considered.

SSDC's Asset Strategy has now been approved and bids will be made annually for approval within the overall budget process.

Members approved a process for releasing Infrastructure Funding. This allows for funding outside of the normal annual budget process but all projects must outline the revenue implications when approved and these commitments will be added to the Medium Term Financial Plan.

District Executive has delegated authority to approve the use of up to 5% of capital receipts in any one year (approx. £1.5 million). Approvals beyond this sum must be agreed through full Council.

11. Strategy for New Homes Bonus (NHB)

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 £350 for every affordable home occupied. The table in paragraph 34 shows a profile of the sums expected.

The agreed strategy for New Homes Bonus is to mainstream it with Revenue Support Grant to maintain services.

To ensure that risk is minimised the amount of NHB being used to fund the MTFP will be outlined each year. In addition it will always fund the current and next year's budget giving the authority time to make any cuts necessary in a measured way.

The current strategy for the use of NHB in priority order is as follows:

- Supporting revenue spending to retain services that benefit the community;
- Supporting costs (revenue and capital) of spending on infrastructure before and on the introduction of CIL;
- Supporting capital spending for affordable housing (from the affordable housing element of NHB);
- Supporting business growth for the retention of business rates to stabilise and increase business rate income.

Currently NHB is being fully utilised to support revenue spending – this will be reviewed annually as part of the Medium Term Financial Strategy and Plan.

The current plan includes support of £3.0 million per annum from New Homes Bonus and assumes that NHB continues beyond the elections in 2015. At present SSDC holds sufficient NHB to fund £2.75 million in 2015/16 and up to £3.0 million will be set aside from the next allocation made to support the 2016/17 budget.

The maximum support from NHB in any one year for ongoing expenditure has been set at £3 million (10% of SSDC's gross spend). The limit and forward funding has been set to ensure that a reduction or the removal of NHB can be managed successfully over a reasonable length of time.

The current estimation is that if members agree to the annual savings targets outlined in the plan some NHB can be released for other priorities by 2016/17.

12. Strategy for Non Domestic Rates Retention (NDR)

The budget set for Non Domestic Rates for 2013/14 and 2014/15 were 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, current estimates are showing that although SSDC was close to the safety net for 2013/14 that there is a surplus expected in 2014/15.

The strategy is therefore to assess the expected outturn for 2014/15 and the budget for 2015/16 and set the budget based on the most reasonable set of assumptions at that time.

The main risks are still the around economic growth and appeals. To mitigate the risks members are requested to set up a specific reserve of £500,000 to smooth out the year to year volatility of NDR.

The estimates currently shown within the MTFP are based on the Government's baseline figures. This will be updated as the budget process progresses.

13. Strategy for Balances and Reserves

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.

14. 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.

15. 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 things become more certain. The table below shows the estimated additional expenditure required in future years, offset by increased income and savings already identified.

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Base budget	17,540.8	17,276.9	16,784.1	16,582.3	16,500.3
Additional payroll requirement	303.1	587.5	488.5	453.9	296.5
Inflation allowance on contracts	170.2	173.6	177.1	180.6	184.2
Unavoidable Budget Pressures	257.7	326.9	321.3	321.3	321.3
Change in Interest Receivable	0.0	0.0	0.0	0.0	0.0
Savings	(136.5)	(19.5)	(6.7)	0.0	0.0
Revenue effects of Capital Programme	83.6	95.7	95.7	95.7	40.0
Once-Off Expenditure	(25.7)	(41.9)	0.0	0.0	0.0
Total Budget Requirement	18,193.2	18,399.2	17,860.0	17,633.9	17,342.3
Financed by:					
Revenue Support	2,585.6	1,939.2	1,454.4	1,090.8	818.1

	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Grant					
Council Tax Reduction Scheme then passed to Town and Parish Councils	(351.4)	(315.2)	(288.5)	(269.0)	(254.9)
Business Rate Retention	3,356.2	3,389.8	3,423.7	3,457.9	3,492.5
Received/Confirmed New Homes Bonus	2,750.0				
Expected New Homes Bonus	250.0	3,000.0	3,000.0	3,000.0	3,000.0
Once-offs funded from revenue balances	41.9	0.0	0.0	0.0	0.0
Council Tax (No increase for 2015/16)	8,553.1	8,770.3	8,992.8	9,220.6	9,454.0
Government funding for Council Tax Freeze 2014/15	91.5				
	17,276.9	16,784.1	16,582.3	16,500.3	16,509.6
Budget Shortfall	**(916.3)**	**(1,615.1)**	**(1,277.7)**	**(1,133.6)**	**(832.7)**

16. Assumptions for the Plan

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

- SSDC will achieve a balanced budget over the next two years 2015/16 and 2016/17 without the use of balances for ongoing expenditure.
- That capital bids will be financed through capital receipts.
- 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 – currently 1% until 2016/17 and then 2% per annum thereafter and 1% per annum average additional pension contributions until 2016/17.
- 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 provisional allocation for 2015/16 of a 31.3% cut with 25% per annum thereafter.

- Business Rate Retention will be in line with the estimates set within the NDR1 calculations.

The use of New Homes Bonus is estimated as follows:-

	2015/16 £'million	**2016/17 £'million**	**2017/18 £'million**	**2018/19 £million**
NHB carried forward	2,750	4,101	6,052	8,003
NHB Expected	4,351	4,951	4,951	4,160
NHB Use in year	3,000	3,000	3,000	3,000
NHB retained for budget support for following year	3,000	3,000	3,000	3,000
NHB remaining	**1,101**	**3,052**	**5,003**	**6,163**

- Council Tax is nominally linked to expected Consumer Price Index (CPI) inflation (currently estimated at 2% per annum) and will be dependent on the requirement to fund additional inflationary pressures on supplies and services. Proposals are that **no increase** will be implemented in 2015/16.

- There will be **no increase** to car parking charges for 2015/16.

- That the base rate is forecast to remain low at 0.5% at least in the short term – the MTFP will reflect actual rates earned current forecast is for 0.9% over the period of the plan.

Additional funding requirements can be added for the following:

- An additional requirement as an inescapable commitment meeting one of the following criteria.
- Legislative changes, eg welfare reforms.
- Growth in the community, eg 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, eg 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.

17. Council Tax Reduction Scheme

Members approved the current Council Tax Reduction Scheme in December 2013. The scheme has been in place since the 1st April 2014. A report will be presented to November District Executive to outline any recommended changes. The current MTFP projections do not reflect any additional costs or savings to the scheme for 2014/15.

The scheme also affects Town and Parish Precepts. The Government has given a grant to District authorities to passport on to the Town and Parishes through their precept. The grant cannot now be identified through RSG and members agreed last year that the grant should be reduced or increased at the same levels as the overall reduction in grant to SSDC. The decrease for 2015/16 using the Governments indicative figures for RSG and baseline for NDR reduces the grant to the town and parishes by 15.5%. To enable Town and Parish Councils to plan their finances members are being requested to passport £351,410 as part of this report.

18. Savings

Management Board has been reviewing the budget and target savings required over the last few months to bridge this gap and project scopes have been drawn up under the following key themes:-

Optimising Income – actively increasing our income, earning income through new sources, and marketing existing services.

Service Redesign – process improvement, EDM, specialist roles, channel shift and sharing (includes Lean).

Contracts and Procurement – reviewing how procurement is delivered and reducing spend on contracts.

Asset Savings – identifying savings from council owned assets (buildings).

As part of the overall review of the budget taking into account the outturn figures for 2013/14 some additional factors have been added to assess SSDC's requirements for 2015/16 and 2016/17. There has been an upturn in the economy that has seen growth in some key income streams that have not been included in optimising income to ensure the project scoping only looked at new and innovative ways to increase income. These income streams have increased as follows:-

	Budget 13/14	**Surplus**	**Budget 14/15**	**Income received greater than profiled income to August 14/15**	**Scope for Increase if Sustained**
	£	**£**	**£**	**£**	**£**
Land Charges	328,170	119,554	378,170	48,069	100,000
Development Control	1,071,950	119,089	1,076,750	322,605	300,000
Licencing	249,510	66,945	279,510	17,423	40,000
Total	**1,662,690**	**305,588**	**1,734,430**	**388,097**	**440,000**
Assume 45% is sustained					**200,000**

In addition to this although interest rates have remained constant at 0.5% the Treasury Management Team has found opportunities that have created a surplus of £113k in 2013/14.

Approximately £400k was removed from budgets for 2014/15 as they were long-term underspends. The overall outturn for 2013/14 shows an underspend overall of £1.2 million. If we take into account that £400k has already been removed plus there was an additional income from major income streams this still leaves £400k to review for 2015/16. We can assume for budget planning purposes that we would target approximately £160k (40%) towards the 2015/16 budget.

The overall summary of the estimates so far are:-

Project Area	**Assumed Achievement 2015/16 £**	**Assumed Achievement 2016/17 £**
Optimising Income	200,000	440,000
Service Redesign	25,000	625,000
Contracts and Procurement	130,000	150,000
Asset Savings	92,000	48,000
Total	**447,000**	**1,263,000**
Other:-		
Treasury Management	113,000	-
Increased Income from Economic Upturn	200,000	-
Underspends	156,000	-
Total Other	**469,000**	**-**
Shortfall to be found from sharing posts and service targets	**-**	**352,000**
Overall Total	**916,000**	**1,615,000**

19. Capital Projects

New capital projects will be presented to District Executive in December 2014.

20. 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.

21. 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 2014/15 based on 2013/14 performance.

- New Homes Bonus - There is a risk that NHB will cease or reduce after May 2015;

- Revenue Support Grant – there is a risk of greater cuts than currently projected a further 5% in 2015/16 will mean further savings of £130k will need to be found;

- Council Tax Reduction Scheme – the approved scheme will be reviewed by District Executive next month. 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 from precepting authorities is not yet known.

- 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.

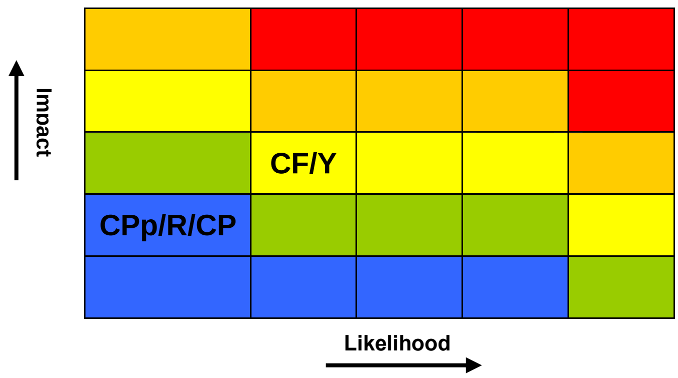
The key risks are determined and agreed by Management Board (MB) and subsequently outlined in each budget setting report to Council. A senior officer is identified to monitor and manage that risk.

22. Budget Deadlines

Scrutiny Committee:	October 14, December 14, January 15, February 15
District Executive:	October 14, December 14, January 15, February 15
Scrutiny Budget Workshop:	December 2014

23. Risk Matrix

This matrix only identifies the risk associated with taking the decision as set out in the report as the recommendation(s). Should there be any proposal to amend the recommendation(s) by either members or officers at the meeting then the impact on the matrix and the risks it identifies must be considered prior to the vote on the recommendation(s) taking place.



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

24. Council Plan Implications

As outlined in the body of the report.

25. Carbon Emissions and Climate Change Implications

Not applicable.

26. 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.

27. Background Papers

District Executive, February 2013
Council Reports, February 2013