



REPORT of DIRECTOR OF RESOURCES

**to
FINANCE AND CORPORATE SERVICES COMMITTEE
26 SEPTEMBER 2017**

MEDIUM TERM FINANCIAL STRATEGY - UPDATE

1. PURPOSE OF THE REPORT

- 1.1 A review of the Medium Term Financial Strategy (MTFS) has taken place and it is now estimated that savings of £98,000 will be required to close the budget gap in 2018 / 19 and that further savings of £282,000 and £596,000 is required in each of the subsequent two years respectively; bringing a total savings requirement of £976,000 by the end of 2020 / 21 to achieve a balanced budget.
- 1.2 Officers have been working since the start of the financial year to look at ways to address the budget gap in future years. Actions to date have included detailed budget scrutiny on the 2016 / 17 outturn, work on future income generation opportunities and a commercial strategy for the Council. The Commercial Strategy will be presented to the Council in December 2017 for approval. Directors and managers have been developing options that work towards delivering efficiency savings proposals for future year and the details of which were discussed at the Budget Seminar with Members on 13 July 2015.
- 1.3 The Committee is asked to approve the recommendation that the following principles to be adopted as part of the 2018 / 19 budget setting process:
- No additional budget growth (including one-offs growths) will be added save for exceptional circumstances;
 - The principle of zero based budgeting will apply for the 2018 / 19 budgets onwards;
 - The Council is to improve income generated through fees and charges following a review on the existing fees and charges policy;
 - By September 2018 a number of service reviews will be completed with a view to identify further savings and improve efficiency:

These service reviews will report back to the Transformation Board, appropriate Programme Committee and the Finance and Corporate Services Committee.
 - Explore the Council's commercial activities to ensure that the Council's income can be maximised. This should include any new fees and charges activities and implementation of the Council's commercial strategy as it is developed;
 - Explore further partnership working with other organisations, this includes sharing of our services;

- Review the Policy on Reserves and Balances to ensure that it supports the delivery of the corporate priorities;
- Capital funding will only be allocated if essential, value for money is demonstrated and the project is fully deliverable.

2. RECOMMENDATION

The Committee is asked to note the content of this report and to approve the principles to be adopted for the 2018 / 19 budget setting process as highlighted in paragraph 3.8.4 below, in particular the this year's process should focus to balance the corporate budget in the medium term.

3. SUMMARY OF KEY ISSUES

- 3.1 A review of the Medium Term Financial Strategy (MTFS) has taken place and it is now estimated that savings of £98,000 will be required to close the budget gap in 2018 / 19 and that further savings of £282,000 and £596,000 is required in each of the subsequent two years respectively; bringing a total savings requirement of £976,000 by the end of 2020 / 21 to achieve a balanced budget. This is a decrease in savings required for 2018/19 by £350,000 from what was reported in February 2017. This is as a result of the detailed overspend review.
- 3.2 The Council's operating environment in the medium term will become more difficult as the Council becomes fully reliant on business rates. In order to support affordable levels of council tax additional income needs to be generated alongside a reduction in costs.
- 3.3 The Corporate Leadership Team (CLT) and the Finance team are currently working on a zero based budget with no growth items. Provisions for inflation and the living wage have been built into the future financial model but these are subject to further analysis and approval. The focus of the medium term financial strategy is now commercialisation with a Commercialisation Strategy being presented for approval to the Council in December. Seminars will be held to support this strategy for Members and additional training will be held for officers. The People, Policy and Performance team are about to carry out a skills audit within the organisation to identify key gaps and areas of expertise so that resource can be utilised effectively to develop business cases and deliver projects.
- 3.4 **Principles of the 2018 / 19 budget setting process**
- 3.4.1 Collection Fund
- 3.4.1.1 The Collection Fund is an account that is administered by the Council for recording receipts from Council tax and business rates and payments to the General Fund and other public authorities including Central Government.
- 3.4.1.2 At the end of 2016 / 17, the Council's portion of Collection Fund was in a surplus position, for the purpose of the 2018 / 19 budget setting process; it would seem prudent to estimate a collection fund surplus in the region of £100,000 for 2016 / 17.

3.4.2 Tax base

3.4.2.1 Given the District will have a relatively high level of growth in the housing number; we have modelled an increase of 310 houses per annum into the MTFS.

3.4.3 Investment Income

3.4.3.1 Investment Income is a key income stream for the Council but in recent years. The economic downturn has kept interest rates very low and the base rate currently stands at 0.25%. Officers have recently met with the Council's Treasury Advisor, Arlingclose Ltd, and recently have started to invest in longer term mixed asset funds which deliver higher rates of interest over the medium term. Investment Income exceeded budget in the previous year and therefore additional investment income of £46,000 has been built into the medium term financial plan for 2018 / 19.

3.4.4 Zero Based Budget and Zero Growth Budget

3.4.4.1 The 2018 / 19 budget will be built using the zero base method. Under this method all expenses must be justified for each new period and there will be no roll forward of previous budgets. The Finance Department have spent the past two months carrying out a detailed review of all budget lines in readiness for the detailed budget build in December 2017. As a principle, save for exceptional circumstances, there will be no growth items introduced for the 2018 / 19 revenue budget.

3.4.5 National Living Wage

3.4.5.1 The Council has previously been committed to paying the living wage. This is payable on a voluntary basis and it is currently £7.50 per hour. The latest Officer for Budget Responsibility (OBR) living wage forecast predicts that this will be £7.90 for 2018 / 19.

3.4.5.2 For those employees where their hourly pay falls below this measure, a monthly supplement is added to their pay to bring it in line with the living wage amount. The annual cost of the supplementary payments is around £6,000.

3.4.6 Public Sector Pay

3.4.6.1 The Chancellor announced that pay rises for staff working in the public sector will be limited to 1% for four years from 2016 / 17. Although local government pay negotiations are carried out separately, the Chancellor's announcement is likely to influence local pay discussions in the future. For the purpose of MTFS, 1% uplift per annum has been applied to salaries in the future years.

3.4.7 Council Tax

3.4.7.1 The Council's average band D council tax increases have been below the rate of inflation for the past five years. The government is expected to continue to hold the Council Tax referendum threshold at a relatively low level in future years. For the purpose of the MTFS, the Council's average council tax is assumed to be increased by 1.95% per annum throughout 2018 / 19 – 2020 / 21.

3.4.8 Inflation

3.4.8.1 The following table shows the Consumer Price Index (CPI) and Retail Price Index (RPI) actual and forecast levels taken from the Office of Budget Responsibility's latest publication:

	CPI	RPI
2016 / 17	0.7%	1.7%
2017 / 18	2.4%	3.7%
2018 / 19	2.3%	3.6%
2019 / 20	2.0 %	3.1%
2020 / 21	2.0 %	3.1%

3.4.8.2 These macroeconomic indicators have changed materially since the last MTFS was approved and therefore the inflation provision has been increased in the latest version of the MTFS.

3.4.9 Reserves and Balances

3.4.9.1 At the end of March 2018 it is predicted that the Council will hold £3.2m of General Fund Reserves and £1.9m of earmarked reserves. The Council may wish to pursue a policy of using these reserves to balance the 2018 / 19 budget. However this is not financial sustainable for future years where the funding gaps become larger as the authority becomes fully dependent on generating its own Business Rates.

3.4.10 A Commercial Council

3.4.10.1 A large number of Councils have implemented commercial strategies and have been able to close future funding gaps by more efficient ways of working, smaller headcount and increased income generation particularly through property investment.

3.4.10.2 If this Council is to become financially sustainable it is essential that it becomes more commercial and creates new income streams for the future. The Council will be presented with a Commercial Strategy in December 2017 to consider and approve which will set out the key options and potential programmes for the Council.

3.4.10.3 In addition to this a number of service reviews are taking place over the next 12 months to increase efficiency and generate savings.

4. CONCLUSION

4.1 The Council's budget setting process integrates service and financial planning into a single process and aims to ensure that resource allocation both reflects corporate priorities and is affordable.

4.2 The Council's is committed to developing our commercial strategy to improve the efficiency of savings and develop future sustainable revenue streams.

5. IMPACT ON CORPORATE GOALS

- 5.1 The Strategic and Financial Planning process contributes towards our Corporate Goal “Delivering good quality, cost effective and valuable services”.

6. IMPLICATIONS

- (i) **Impact on Customers** – Consultations will be undertaken to listen to the views of customers and the community with the aim of responding to their needs where possible.
- (ii) **Impact on Equalities** – Due regard to equality impact will be taken when making decisions arising from the 2018 / 19 budget setting process.
- (iii) **Impact on Risk** – The implementation of the budget setting process is designed to minimise the risk of not having a robust Medium Term Financial Strategy.
- (iv) **Impact on resources (financial)** – The process provides a framework for allocating resources.
- (v) **Impact on Resources (human)** – None arising from this report.
- (vi) **Impact on the Environment** – None.

Background Papers: None.

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