



Report To: Leader & Cabinet
Lead Officer: Executive Director (Corporate Services)

12 November 2015

Medium Term Financial Strategy (MTFS)

Purpose

1. To provide Cabinet with an update to the General Fund forecasts and underpinning assumptions and their impact on the Council's MTFS.
2. This is not a key decision but it has been brought before Cabinet to facilitate the preparation of detailed budgets for 2016-17 and to frame the Council's MTFS considerations including the likely scope of additional income/savings required over the forecast period. It was first published in the July 2015 Forward Plan.
3. As a result of various announcements regarding national housing policy and welfare reform, a separate paper setting out the proposed Housing Revenue Account (HRA) budget strategy, assumptions and conclusions is appended to this report.

Recommendations

4. It is recommended that Cabinet:
 - (a) notes the General Fund forecast at **Appendix A** and approves the assumptions underpinning the MTFS set out in this report;
 - (b) approves the HRA budget strategy and assumptions and notes the conclusions set out in **Appendix B**;
 - (c) approves the addition of £150,000 in the HRA capital programme in relation to the Self-Build Vanguard pilot project;
 - (d) instructs the Head of Finance to bring forward detailed draft estimates for 2016-17 based on the assumptions and issues contained in this report for consideration by Cabinet in the new year; and
 - (e) instructs Executive Management Team (EMT) to identify and develop other options for meeting the MTFS additional income/savings requirement.

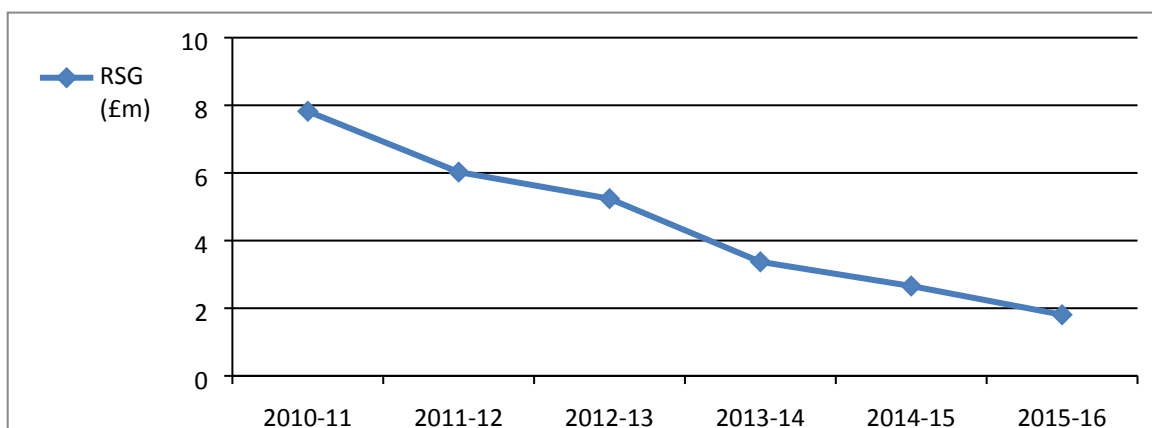
Reasons for Recommendations

5. The General Fund forecast at **Appendix A** summarises the financial issues arising over the medium term and, together with the assumptions in this report, sets the parameters for drawing up detailed budgets for 2016-17 and the likely scope of any additional income/savings required to maintain balances at a minimum level of £2.5m.
6. The forecast anticipates a continuing contraction in central government financial support for the authority, although at this stage there is no certainty of the actual level of funding receivable for 2016-17. The next MTFS forecast update to Cabinet will reflect the outcome of the Government's Autumn Statement and Spending Review, and the Local Government Finance Settlement.
7. The Self-Build Vanguard pilot project money will be recycled as sites are developed and sold, and the capital receipts realised – page 16 of **Appendix B** refers.

Background

8. Government funding of local government through Revenue Support Grant (RSG) reduced over the period of the last Parliament, and including the first year of this Parliament (which was determined by the previous one). The figures are shown in Table 1 below.

Table 1	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
RSG	£7.823m	£6.026m	£5.239m	£3.372m	£2.657m	£1.807m



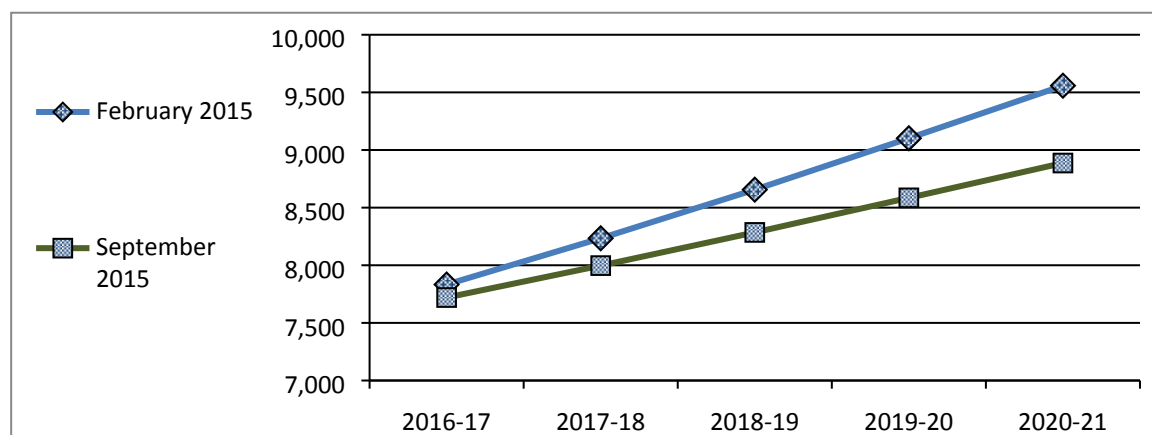
9. The coalition Government's fiscal plans set out in the March 2015 Budget included:
- 2% cuts year on year;
 - £12bn from welfare reform in 2 years;
 - 10% reductions for unprotected department budgets over the Parliament.
10. The Chancellor of the Exchequer announced in the new Government's July 2015 Budget that overall deficit reduction targets would remain, but that welfare reform would now be phased over four years rather than two. In addition, the Government added defence to the list of protected departmental budgets, thereby essentially pledging to increase spending on health, defence and overseas development aid, and to freeze spending on education.
11. This puts more pressure on other unprotected Government department budgets (including Communities and Local Government), which now face cuts of around 27% between 2015-16 and 2019-20. The phasing of welfare reform over four years rather than two, but with overall deficit reduction targets remaining, implies that these cuts will probably need to be front-loaded into the first two years to offset the shallower reductions in welfare costs. Government departments have provided the Treasury with an assessment of the implications of cuts to their budgets of 25% and 40% over that period.
12. On 9 September 2015 the Chancellor of the Exchequer announced that there will be an Office for Budget Responsibility (OBR) forecast alongside the Spending Review on 25 November 2015. The Government will therefore publish a joint Autumn Statement and Spending Review; the latter will give the Treasury's allocation of budgets to Government departments for the four financial years 2016-17 to 2019-20. The Local Government Finance Settlement is expected some time in December 2015.

13. On 5 October 2015 the Chancellor of the Exchequer set out plans for local government to gain new powers and retain local taxes so that, by the end of the Parliament, local government will be able to retain 100% of local taxes including all revenue from business rates. The Government will set out further details in the Spending Review.

Considerations

14. Based on referendum criteria for the last two years, and with a new Conservative Government, it is considered unlikely that the Council will be able to raise council tax by 3.5% or £5 p.a. (whichever is the lesser), as assumed in the MTFs approved at Council in February 2015. The MTFs has therefore been re-modelled on the assumption that council tax increases will be less than 2% in 2016-17 and thereafter. The referendum criteria for 2016-17 will probably not be known until late January / early February 2016.
15. Based on council tax increases of less than 2%, the resulting 'Council Tax Requirement' or "Yield" is estimated to fall by a total of £1.909m over the 5 year period of the MTFs, as shown in Table 2 below:

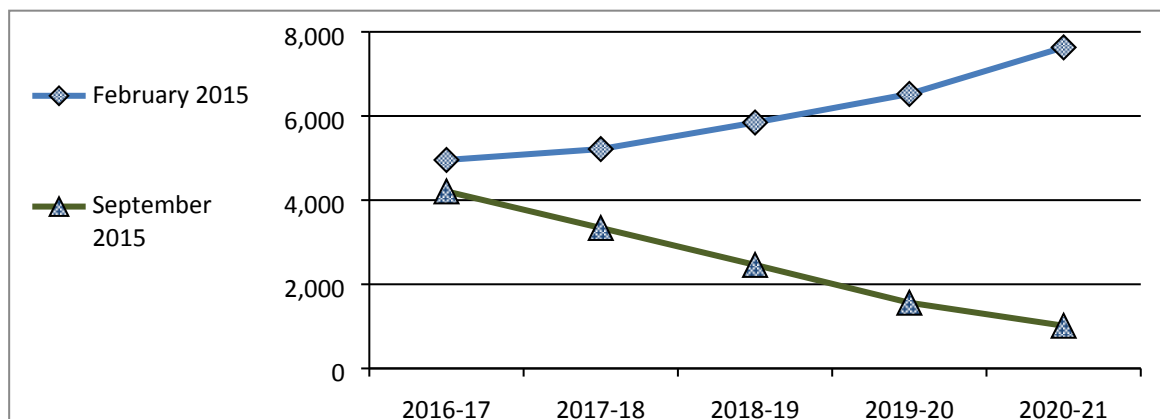
Table 2	2016-17	2017-18	2018-19	2019-20	2020-21
Council tax Band D rate					
February 2015	£129.69	£134.22	£138.91	£143.77	£148.77
November 2015	£127.81	£130.36	£132.96	£135.61	£138.32
Resulting Council Tax Yield					
February 2015	£7.833m	£8.234m	£8.656m	£9.102m	£9.558m
November 2015	£7.720m	£7.997m	£8.285m	£8.585m	£8.887m
Differences	£0.113m	£0.237m	£0.371m	£0.517m	£0.671m



16. The council tax base is due to be determined in December 2015. In preparation for this, provisional figures have been sent to each parish to review and confirm (or suggest alternative figures); the final figures and future trajectory projections will be used in the MTFs presented for approval to Cabinet and Council in February 2016.
17. No MTFs modelling has yet been done of the possible effects on Retained Business Rates resulting from local authorities gaining new powers and retaining local taxes, as:
- (a) it is not clear whether these will depend on devolution agreements being in place, nor how much additional business rates income might arise (e.g. all revenue from business rates, or all increased business rates above previous forecast levels);

- (b) it appears that the powers will include the ability for local authorities to cut business rates to boost enterprise and economic activity in their areas, but the basis for this would need to be approved by each authority;
 - (c) it is assumed that authorities will still be subject to a tariff and levy system; and
 - (d) authorities will still face risks from valuation appeals and business closures.
18. As mentioned in paragraph 10 above, the implication from phasing of welfare reform over four years rather than two, but with overall deficit reduction targets remaining, is that cuts to unprotected Government department budgets (including Communities and Local Government) will need to be front-loaded into the first two years. The MTFS has therefore been re-modelled on the basis of a 40% funding cut over the 2 years, 2016-17 and 2017-18.
19. There are many possible combinations of other future changes/assumptions that might be modelled, arising from the Spending Review / Autumn Statement / Local Government Finance Settlement; one set of assumptions has been chosen to illustrate what the potential impact on the MTFS might be:
- (a) no New Homes Bonus (NHB) w.e.f. 1 April 2016, but that money recycled through other local government funding streams (i.e. RSG);
 - (b) the Council continuing to receive current NHB, on a gradually reducing basis as early years drop out.
20. Table 3 below shows that NHB would fall by a total of £17.584m over the 5 year period of the MTFS:

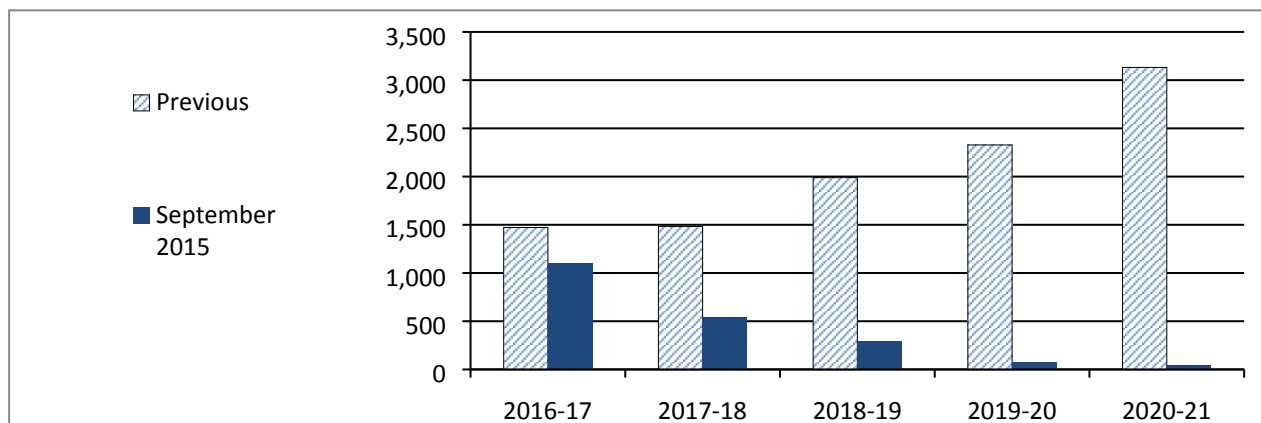
Table 3	2016-17	2017-18	2018-19	2019-20	2020-21
New Homes Bonus (£m)					
February 2015	4.955	5.214	5.845	6.524	7.631
November 2015	4.208	3.339	2.461	1.562	1.015
Differences	0.747	1.875	3.384	4.962	6.616



21. £1.8m of NHB is currently being used to support expenditure previously funded from Housing & Planning Delivery Grant (H&PDG); NHB has also been used to contribute to rural broadband in the district and fund some Local Plan expenditure. Part of the balance of NHB money has been allocated to the City Deal (40% in 2015-16, 50% thereafter); the remainder is transferred to an Infrastructure Fund, to support infrastructure needs of future developments; the Council's contribution to the A14 upgrade will come from this fund. A reduction in NHB would have significant effects on both City Deal funding and the Council's Infrastructure Fund.

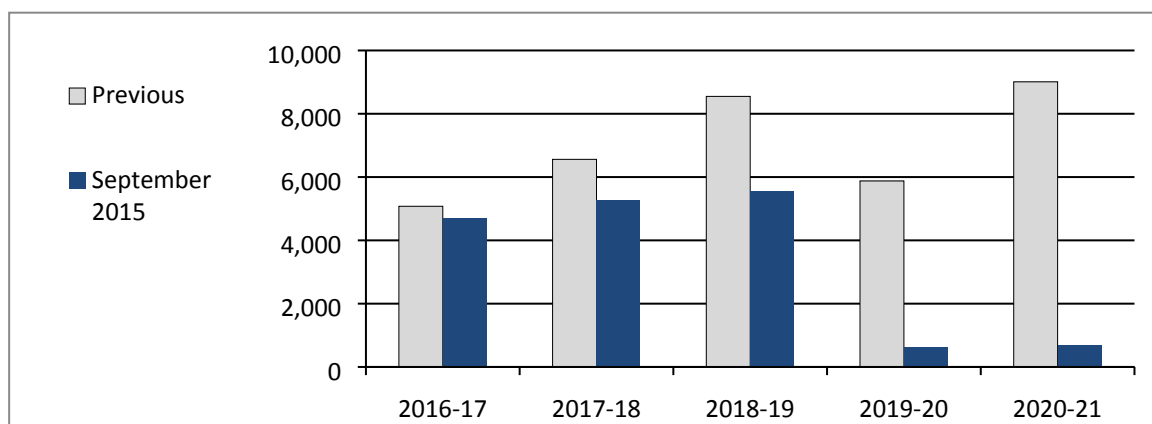
22. The effect on the City Deal would be significant reductions in contributions over the period of the MTFs, as shown in Table 4 below. This could be a point of discussion/ negotiation with the Government over City Deal / local government funding streams.

Table 4	2016-17	2017-18	2018-19	2019-20	2020-21
Effect on City Deal funding (£m)					
Previous	1.472	1.483	1.989	2.328	3.132
November 2015	1.099	0.546	0.297	0.073	0.049
Differences	0.373	0.937	1.692	2.255	3.083



23. The effect on contributions to the Council's Infrastructure Fund would be the same of for the City Deal; however, there would be sufficient money in the fund to meet the A14 contribution in 2019-20, as Table 5 below shows. Projections beyond the end of the MTFs approved at Council in February 2015 indicated that use of the Infrastructure Fund to support expenditure previously funded from H&PDG would need to be progressively scaled back from 2020-21; the modelled change to NHB means this would need to be brought forward a year.

Table 5	2016-17	2017-18	2018-19	2019-20	2020-21
Effect on Infrastructure Fund balances (£m)					
Previous	5.077	6.560	8.549	5.877	9.009
November 2015	4.703	5.248	5.545	0.617	0.667
Differences	0.374	1.312	3.004	5.260	8.342



24. Recycling NHB money through RSG would provide an additional £282k in 2016-17; however this would be lost the following year as the second year of the modelled 40% funding cut took effect.

25. Alongside reviewing the MTF5 and its underlying assumptions, directors were asked to identify inescapable and other spending pressures, and opportunities for further income/savings, in 2015-16 and over the period of the MTF5. Table 6 below shows the areas and costs/savings identified; some of the costs have yet to be confirmed. Where spending pressure costs have been confirmed, they have been modelled in the MTF5.

Table 6	2015 -16	2016 -17	2017 -18	2018 -19	2019 -20	2020 -21	Note
Spending pressures / Opportunities for income/savings (£000)							
Corporate Services							
Increased debit card transaction costs	30	30	30	30	30	30	
Electoral registration	0	50	50	50	50	50	1
Elections	0	0	0	40	- 80	- 80	
Health & Environmental Services							
New RECAP MRF contract	70	86	86	86	86	86	2
Paper contract income	50	127	127	127	127	127	3
Housing growth impact on waste operations	0	??	??	??	??	??	4
Footway lighting	0	0	??	??	??	??	5
Housing General Fund							
Homelessness	0	??	??	??	??	??	6
Totals	150	293	293	333	213	213	7

- Notes
1. Funding for transition to Individual Electoral Registration is likely to end in December 2015. The figures are the best estimate of the ongoing cost of registration, no longer supported by Government grant.
 2. Modelling of SCDC recycle volumes and values, using figures from other authorities already in the RECAP contract.
 3. Contract renewed October 2015 for 2 years; figures based on reduced tonnages collected and reduced market price.
 4. Awaiting updated housing occupation projections, so not modelled in the MTF5 yet.
 5. Asset management plans from the contractor are currently being reviewed.
 6. Increases in expenditure are anticipated as a result of the welfare benefit changes; work is being done to ascertain how quickly homeless applications might increase, exacerbated by fewer void Council properties in which to accommodate applicants, and the resulting possible levels of additional expenditure required, which will be reflected in the future revenue budget and precautionary item amount.
 7. Once the outstanding figures are known and input, they will increase the totals and therefore the additional income/savings requirement.

26. As some of the inescapable spending pressures have yet to be confirmed, and in the light of the shortfall in additional income/savings so far identified in the first two years, EMT asked directors to consider other options:
- (a) Acceleration of commercialisation projects: Bailiff Service; Trade Waste; Business Hub;
 - (b) Review provisions for pay increases and general inflation (both currently at 2% p.a. in accordance with the MTF5 approved by Council in February 2015).
 - (i) The government announced in the July 2015 budget that it will fund public sector workforces for a pay award of 1% for 4 years from 2016-17 onwards. Accordingly, staffing estimates included within the MTF5 have

been provisionally re-modelled on the basis of 1% pay increases from 2016-17 for 4 years and 2% thereafter.

- (ii) The general provisions for inflation from 2016-17 onwards included within the MTFs have also been provisionally re-modelled in line with the OBR's latest CPI forecast (July 2015), to 1.4% in 2016-17, 1.8% in 2017-18, 1.9% in 2018-19 and 2019-20 and 2% thereafter.

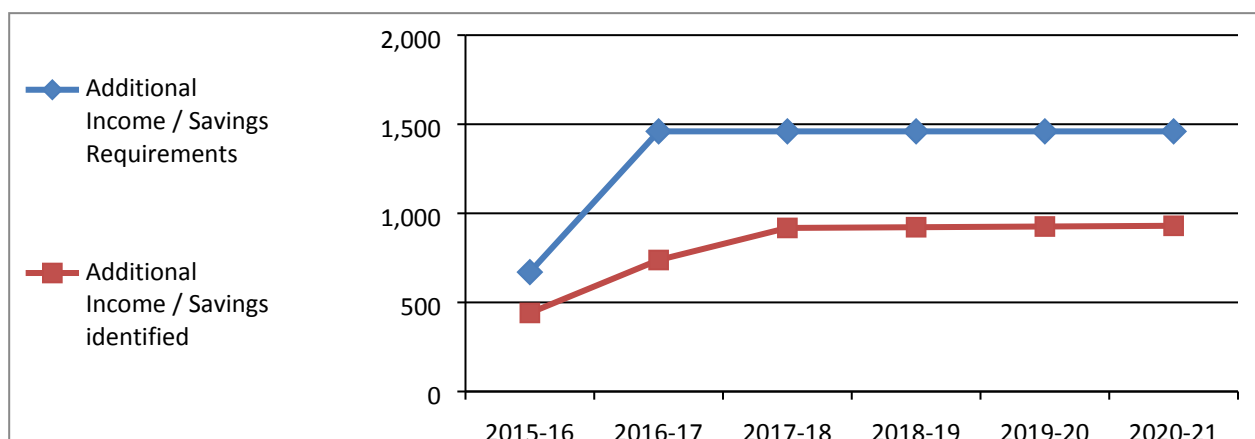
- (c) Check the levels of other earmarked reserves.

27. The resulting General Fund forecast set out at **Appendix A** indicates that additional income/savings in the region of £1.440m need to be found from 2016-17 onwards to ensure balances are maintained at no less than £2.5m by the end of March 2021. An alternative would be for this to be phased in over the period of the MTFs, i.e. a lower figure for 2016-17 with compensating higher figures in later years.

28. Areas so far identified to meet the additional income/savings target are shown in Table 7 below, but they depend on the areas identified achieving the additional income/ savings, and there are shortfalls in 2015-16 and 2016-17.

Table 7	2015 -16	2016 -17	2017 -18	2018 -19	2019 -20	2020 -21	Note
Areas so far identified to meet the additional income/savings target (£000)							
Single Shared Waste Service and other waste initiatives	52	166	341	341	341	341	1
Increased Planning Pre-App fee income	100	100	100	100	100	100	
Goods, Supplies and Services procurement	50	50	50	50	50	50	
Office Space Management	37	50	50	50	50	50	
Shared Services / Commercialisation Programme	0	270	275	279	283	287	2
Interest on investments	100	100	100	100	100	100	3
Other	102	2	2	2	2	2	4
Totals	441	738	918	922	926	930	

- Notes
1. The 2015-16 figure is a proportion of the anticipated savings on staffing and accommodation costs; it is unlikely that any savings will accrue from round reductions in 2015-16. The figures for 2016-17 onwards represent SCDC's share (assumed at 50%) from the report to Cabinet of 16 October 2014.
 2. The figures represent SCDC's shares from the Building Control, ICT and Legal shared services business case reports to Cabinet on 9 July 2015.
 3. The figures represent interest on investments above previous forecasts, including from the current Ermine Street Housing pilot project.
 4. The 2015-16 figure includes a windfall cost saving on fuel for refuse and street cleansing vehicles.



29. Ways of meeting the additional income/savings to be identified include: acceleration of commercialisation projects: Bailiff Service; Trade Waste; Business Hub; and review of earmarked reserves (both, as mentioned in paragraph 25 above).
30. One additional area identified by directors is net income to the Council from Ermine Street Housing; however, this is subject to consideration by the Council on 26 November 2015 so no figures have been incorporated into MTFs projections as yet.

Implications

31. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

Financial

32. As detailed in the report.

Staffing

33. Outcomes of known restructuring exercises and other staff changes have been reflected in the figures within the forecasts.

Risk Management

34. There are a range of risks to any financial forecast; the Strategic Risk Register mentions several that could relate to the MTFs, including:
- (a) Uncertainty over the level of central government funding from 2016-17 on;
 - (b) Continued uncertainty over the impact of successful outstanding valuation appeals on retained business rates yields.

Equality and Diversity

35. The report is for information and in itself has no equality impact.

Consultation responses (including from the Youth Council)

36. EMT has been consulted on the assumptions that build up the MTFs and this report and appendices reflect those consultations.

Effect on Strategic Aims

Aim 1 – Engage with residents, parishes and businesses to ensure we deliver first class services and value for money

37. Improve efficiency and value for money within a viable financial strategy.

Background Papers

Where [the Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012](#) require documents to be open to inspection by members of the public, they must be available for inspection: -

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

Original Estimates 2015-16

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