APPENDIX B

MEDIUM TERM FINANCIAL STRATEGY (MTFS) CONSIDERATIONS

PART 1 – APPROVING THE GENERAL FUND ESTIMATES

GENERAL FUND SUMMARY

1. The General Fund summary showing the cost of providing services is attached as ***Appendix B1***.

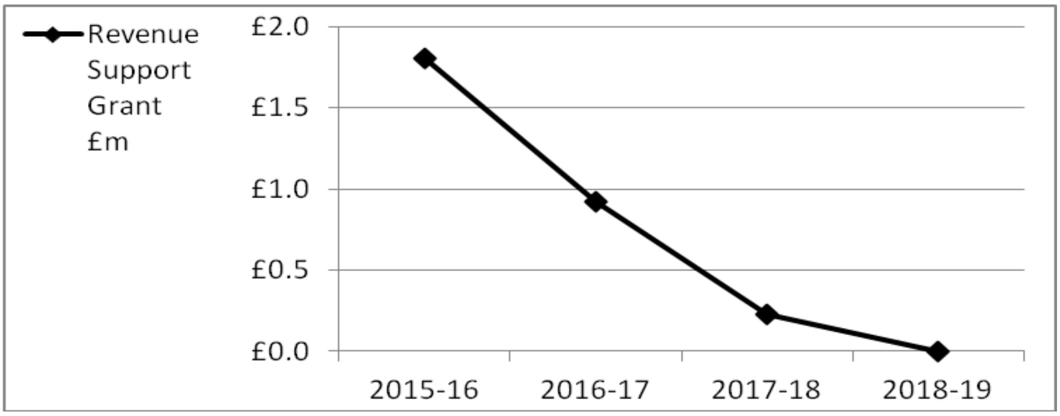
LOCAL GOVERNMENT FINANCE SETTLEMENT

2. The provisional Local Government Finance Settlement for 2016-17 was published on 17 December 2015. Those figures have been used in compiling the draft Medium Term Financial Strategy (MTFS) and in preparing this report.

3. The settlement continues the Government's separation of local government funding into two elements: Revenue Support Grant (RSG); and Retained Business Rates (RBR). The settlement forecasts RSG reducing by £880,000, 48.7%, from 2015-16 to 2016-17, by a further £696,000, 75.2%, in 2017-18 and to £ nil in 2018-19.

4. The figures for RSG are:

Year	Revenue Support Grant	change year on year	
2015-16	£1.806m		
2016-17	£0.926m	- £0.880m	- 48.7%
2017-18	£0.230m	- £0.696m	- 75.2%
2018-19	£ nil	- £0.230m	- 100.0%



5. These figures are in cash terms; the % decrease is therefore greater in real terms.

COUNCIL TAX FREEZE GRANT

6. in previous years, the Government has offered council tax freeze grants, payable to billing (i.e. districts, etc.) and major precepting authorities (i.e. counties, police and fire) that did not increase their council tax. No grant has been offered for 2016-17.

COUNCIL TAX REFERENDUM PRINCIPLES

7. The settlement maintains the core referendum threshold for Band D council tax increases at 2%; however, the threshold for district councils in the lowest Band D council tax quartile in 2015-16 (which includes this authority) will be £5 a year for the next four years.

8. The core model for the 2016-17 estimates has been built on the assumption that there will be a £5 increase in council tax to £130.31, which would result in a council tax requirement (excluding parish precepts) of £7,852,090. Other options open to Members are set out in the covering report, paragraphs 19 and 20.

NEW HOMES BONUS

9. New Homes Bonus (NHB) is a grant from 2011-12 based on:
   (a) Net additions to the number of dwellings (the main factor);
   (b) Increases in affordable housing;
   (c) Empty homes brought back in to use;
   (d) Increase in gypsy and traveller pitches; and
   (e) Increase in average national council tax rates.

10. NHB is a vital grant for this authority since Housing Planning Delivery Grant (HPDG) and housing growth funding (via Cambridgeshire Horizons) ended. The Council received £1.841 million and £1.954 million from HPDG and housing growth funding in 2008-09 and 2009-10 respectively. Accordingly, the Council allocated the first £1.8 million of NHB receipts in each year from 2013-14 on, to offset expenditure previously covered by HPDG. Additional monies have also been set aside to meet infrastructure projects including Local Plan costs.

11. In November 2014 Cabinet provisionally allocated the balance of NHB as this authority's commitment to City Deal shared funding. On 28 January 2015 the Greater Cambridge City Deal Executive Board agreed that pooled NHB between the three authorities, of 40% of receipts in 2015-16 and 50% from 2016-17 on, subject to the ratification of the respective Councils, be used to fund the non-project costs required to support the successful delivery of the City Deal programme. The Council formally approved this on 26 February 2015. City Deal budgets are being prepared on the assumption that unspent 2016-17 monies are rolled forward.

12. Sums received in excess of this have been modelled as transferred to a reserve to meet non-recurring expenditure on infrastructure etc. This authority's "local contribution" of £5m towards the cost of the A14 upgrade has been reflected as coming from this infrastructure reserve.

13. Provisional NHB allocations for 2016-17 were announced alongside the provisional 2016-17 Local Government Finance Settlement, calculated using the same methodology as in 2015-16.

14. The settlement models NHB allocations to authorities for 2017-18 to 2019-20 in line with the Government's national targets, including the top-slicing of NHB by £800m and reallocating that money into the Better Care Fund.

15. At present, each year's grant is payable for six years and so the grant accumulates for six years and then early years' grants fall out from year seven. The Government is consulting on changing the number of years for which payments are made. The figures for NHB for 2016-17 to 2019-20 included in the settlement are assumed to follow the

Government’s preferred option of reducing the number of years for which legacy NHB payments are to be paid, from six to four years.

16. The table below shows the effect:

	Receipt arising in financial year …									
From new homes in …	2011-12 £’000	2012-13 £’000	2013-14 £’000	2014-15 £’000	2015-16 £’000	2016-17 £’000	2017-18 £’000	2018-19 £’000	2019-20 £’000	2020-21 £’000
2010-11	869	869	869	869	869	869				
2011-12		878	878	878	878	878				
2012-13			899	899	899	899				
2013-14				555	555	555	555			
2014-15					1,015	1,015	1,015	1,015		
2015-16						1,049	1,049	1,049	1,049	
2016-17							867	867	867	867
2017-18								1,315	1,315	1,315
2018-19									1,618	1,618
2019-20										1,725
Funding adjustment			20							
Totals	869	1,747	2,666	3,201	4,216	5,265	3,486	4,246	4,849	5,525
Less: Contribution to GF			1,803	1,803	1,803	1,803	1,803	1,803	1,803	1,803
Infrastructure projects			50	182	177	554	200	285	65	15
A14 upgrade contribution										5,000
City Deal shared funding					1,686	2,633	1,743	2,123	2,425	2,257
Surplus/(Deficit) for year			813	1,580	550	275	(260)	35	556	-3,550
Infrastructure Reserve Fund										
B/fwd			0	813	2,393	2,943	3,218	2,958	2,994	3,550
Surplus/(Deficit) for year			813	1,580	550	275	(260)	35	556	-3,550
C/fwd			813	2,393	2,943	3,218	2,958	2,994	3,550	0

17. The Government is also consulting on other reforms to NHB:
   (a) withholding new NHB allocations in areas where no Local Plan has been produced;
   (b) reducing payments for homes built on appeal; and
   (c) only making payments for delivery above a baseline representing “deadweight”.

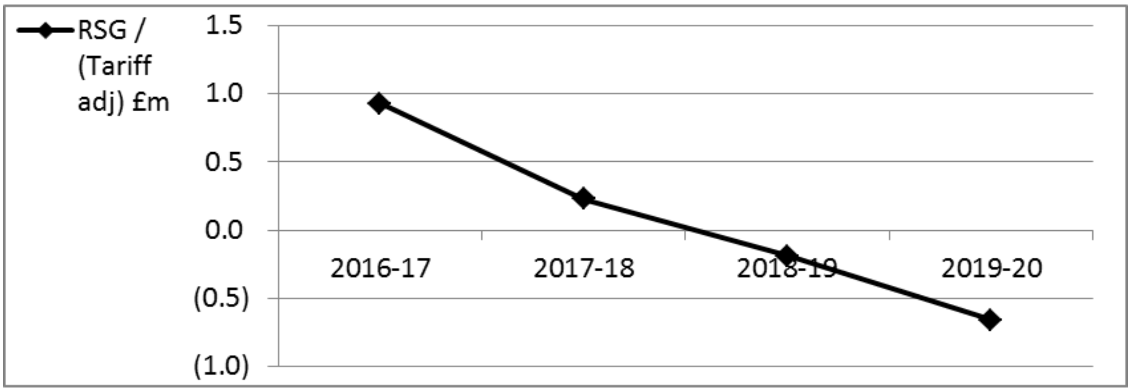
Beyond 2017-18, it is possible that some of these other reforms could have adverse implications for the amount of NHB that the authority might receive.

RETAINED BUSINESS RATES

18. The settlement retains the basic principles of the Retained Business Rates (RBR) system, including:
   (a) the proportions passed on to central Government and to local precepting authorities;
   (b) tariffs and baseline funding levels (uprated in line with the small business non-domestic rating multiplier for 2016-17);
   (c) levy rate and safety net arrangements (this latter, also uprated as above).

19. The “Key Information for Local Authorities” that accompanies the settlement introduces a new element into the RBR system, an additional “adjustment” to the tariff deduction for 2018-19 and 2019-20, which appears to extend the reduction in RSG (as noted in paragraph 3 above), as the table below suggests. This will reduce the amount of RBR available to the authority in those years.

Year	RSG / (Tariff adj)	Change year on year
2016-17	£0.926m	- £0.880m
2017-18	£0.230m	- £0.696m
2018-19	(£0.191m)	- £0.421m
2019-20	(£0.661m)	- £0.470m



20. With regard to RBR, the settlement does not take into account any enterprise zones that have been approved, nor any devolution agreements that may be made. In addition, the financial impact of enterprise zones has yet to be clarified.

REVENUE ESTIMATES

21. The General Fund summary up to the year ending 31 March 2017 is submitted for Members’ approval as ***Appendix B1***.

22. The figures in Appendix B1 show the 2015-16 original estimate for Net District Council General Fund Expenditure of £16.099 million increasing to £17.671 million in the 2016-17 estimate, an increase of £1.572 million in cash terms (9.8%).

23. ***Appendix B2*** sets out details of “precautionary” items of expenditure totalling £652,000; £422,000 of which relates to revenue services and £230,000 to capital programme projects. These are items of expenditure over which there is some doubt as to whether they would occur in 2016-17, but if they did, the Council would be required to meet them. It has been assumed that revenue expenditure of £75,000 will be incurred on precautionary items in 2016-17 on the basis that there has been limited use of precautionary items in previous years, with most additional demands being met by virements from other budgets.

COLLECTION FUND BALANCE

24. The Council's Collection Fund includes transactions relating to the Council Tax.

25. Regulations provide that the balance on the Collection Fund at 31st March 2016, whether in hand or overdrawn, must be transferred to the Billing Authority and the major precepting authorities in the same ratio as their 2015-16 precepts.

26. It is estimated that the balance at 31 March 2016 will be a surplus of £297,739 of which £37,718 will be transferred to the District in 2016-17.

PART 2 – SETTING THE COUNCIL TAX

CALCULATION OF THE TAX

27. The Council Tax figures quoted in this report relate to the tax on a Band D property occupied by two or more adults unless otherwise indicated. The process for setting the tax base changed following the introduction of major changes to the welfare system in April 2013. The principal change was the end of the council tax benefit system. In replacement, billing authorities were required to design and implement their own localised council tax support schemes (LCTSS).

28. Essentially, this is done through the granting of discounts to the council tax bill. Under the legislation, the council is required to grant the equivalent discount in cash terms as benefit for pensioners, so they will not notice any change to their bills. The Council also decided to fully protect other vulnerable groups and to limit the impact on remaining benefit claimants. To partially offset the impact of the new LCTSS, the Council ceased some discounts and exemptions granted to owners of second and empty homes.

29. As a consequence of the changes the District Council saw a reduction to the council tax base. This is because the granting of discounts is treated as a reduction to the amount chargeable as opposed to council tax benefit which is treated as a reduction to the amount payable by the claimant.

30. The figure for a Band D property is arrived at by dividing the amount of the council tax requirement by the tax base of band D equivalents. A tax base of 60,257.0 for 2016-17 has been approved by the Executive Director (Corporate Services).

31. If the Council approves the council tax requirement of £7,852,090 for 2016-17, then the tax on properties in Bands A- to H will be:

Valuation Band	Range of values as at 1 April 1991	Ratio to Band D	Council Tax £5 increase
A-		5/9	£72.39
A	Up to and including £40,000	6/9	£86.87
B	£40,001 - £52,000	7/9	£101.35
C	£52,001 - £68,000	8/9	£115.83
D	£68,001 - £88,000	-	£130.31
E	£88,001 - £120,000	11/9	£159.27
F	£120,001 - £160,000	13/9	£188.23
G	£160,001 - £320,000	15/9	£217.18
H	More than £320,000	18/9	£260.62

32. The full amount of the tax is arrived at by adding the requirements of the County Council, the Police and Crime Commissioner, the Fire Authority and the relevant Parish to the District figure and these figures, together with a full list of parish precepts, will be presented to the Council meeting on 25 February 2016.

PART 3 – GENERAL FUND FORECAST

33. The General Fund MTFS has updated the projections for future years to incorporate the latest figures, which are shown in ***Appendix B3***.

34. The strategy is dependent on the assumptions that are built in to it and these include:
    (a) being able to identify and implement additional income/savings of £300,000 in 2016-17 and then ongoing additional income/savings of £1,030,000 per annum from 2017-18; this equates to an average cost saving of £16.86 per Band D property;
    (b) the £50,000 for Council actions as recurring expenditure each year;
    (c) retaining sufficient contributions to maintain a Planning Enforcement Reserve of £500,000;
    (d) reductions in RSG in line with the local government financial settlement;
    (e) an allowance for RBR income; parameters within scheme's calculation methodology increase each year in line with RPI;
    (f) an increase in council tax of £5 each year from 2016-17 to 2019-20, and by 2% in 2020-21;
    (g) an increase in the tax base (number of band D equivalent dwellings) in line with the housing trajectory in the Annual Monitoring Report that went to the Planning Portfolio Holder as part of the Annual Monitoring Report in January 2016; and
    (h) the first £1.8m income from NHB is shown in the MTFS as used to meet General Fund expenditure, replacing previous income from HPDG and Cambridgeshire Horizons grant; further sums are also shown to meet estimated expenditure associated with the Local Plan; 50% of NHB income in 2016-17 is allocated to the City Deal, with any remaining income being transferred to a reserve for non-recurring expenditure on infrastructure, community facilities, etc. Points to note about NHB are:
        - the government may "sharpen the incentive" as a result of its consultation (see paragraph 17 above);
        - a new government within the period of the MTFS may change the scheme;
        - the housing trajectory may be too optimistic.

35. The result is that by the end of the projection period, 31 March 2021, the General Fund balance is at the minimum agreed level of £2.5 million (credit balance). However, the immediate position of a £2 million deficit/use of balances on the General Fund in 2016-17 indicates that there can be no relaxation in the search for additional income/savings.

ADDITIONAL INCOME/SAVINGS REQUIREMENT

36. As stated in paragraph 34. (a) above, the MTFS is partly dependent on additional income/savings of £300,000 in 2016-17 and then £1,030,000 per annum from 2017-18 being identified and implemented. The requirement is set out in that way, rather than £885,000 per annum from 2016-17 in recognition that, while some schemes have been identified, they make take some time to implement.

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

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	Note
Single Shared Waste Service: round optimisation		150	150	150	150	1
South Cambs Ltd, trading as Ermine Street Housing	250	600	600	600	600	2
Sub-totals	250	750	750	750	750	
To be identified, including:	50	280	280	280	280	
Commercialisation Programme: - In-house Bailiff Service - Business Hub						
Further shared service opportunities						
Totals	300	1,030	1,030	1,030	1,030	

Notes
1. The figures represent SCDC's share (assumed at 50%) from the report to Cabinet of 16 October 2014.
2. The figures represent income from the initial investment phase of the approved full project; any future growth above this is dependent on a number of factors, including:
   (a) the national economy;
   (b) interest rates;
   (c) the housing market.

OPTIONS

38. Options for the MTFS, which can be modelled if requested, include one or a combination of the following:

    (i) finding further revenue savings and/or capital savings financed from revenue;
    (ii) agreeing a provision for inflation which is different to the OBR's forecast. A lower provision would save money in 2016-17 and each subsequent year, assuming that the saving went into balances. There would clearly be no saving if there was a corresponding reduction in RSG or RBR from the Government;
    (iii) using more of NHB to meet general fund expenditure instead of non-recurring expenditure;
    (iv) anticipating higher income from RBR on the basis that an area like South Cambridgeshire should benefit more from the scheme. However, there are significant potential risks associated with outstanding valuation appeals and with the business economy, so it is difficult to quantify such higher income with any certainty;
    (v) increasing the council tax by less than £5 in 2016-17;
    (vi) increasing the council tax by less than £5 from 2017-18 to 2019-20; and
    (vii) running the General Fund balance down below the recommended minimum of £2.5 million.