



Report To: Leader and Cabinet
Lead Officer: Executive Management Team

11 February 2016

MEDIUM TERM FINANCIAL STRATEGY

Purpose

1. The purpose of this report is for Cabinet to approve and recommend to Council the Medium Term Financial Strategy (MTFS), which covers:
 - (a) the Capital Programme for the five years to 31 March 2021;
 - (b) the General Fund estimates and the resulting council tax for the financial year ending 31 March 2017;
 - (c) fees and charges for 2016-17;
 - (d) the MTFS for the General Fund for the five years to 31 March 2021;
 - (e) the list of Precautionary Items for the General Fund;
 - (f) the Housing Revenue Account (HRA) estimates and the rent increase for the financial year ending 31 March 2017;
 - (g) service and other charges for housing services for the financial year ending 31 March 2017;
 - (h) the HRA business plan for the next 30 years to 31 March 2046;
 - (i) the investment strategy for the year to 31 March 2017;
 - (j) the prudential indicators required by the Prudential Code for Capital Finance Local Authorities for the year to 31 March 2017.

2. These are key decisions because:
 - (a) they are likely to result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the decision relates;
 - (b) they are likely to be significant in terms of their effects on communities living or working in an area of the District comprising two or more wards;
 - (c) they increase financial commitments (revenue and / or capital) in future years above existing budgetary approvals, and they were first published in the November 2015 Forward Plan.

Recommendations

3. That Cabinet recommends to Council that:
 - (a) the General Fund Capital Programme and the associated funding up to the year ending 31 March 2021 (**Appendix A1**) is approved as submitted;
 - (b) the revenue estimates for 2016-17 are approved as submitted in the General Fund summary (**Appendix B1**);
 - (c) the precautionary items for the General Fund (**Appendix B2**) are approved;
 - (d) the Medium Term Financial Strategy for the General Fund (**Appendix B3(A)**) is approved based on the assumptions set out in this report;
 - (e) the fees and charges proposed for 2016-17 (**Appendix B4**) are approved;
 - (f) Executive Management Team be instructed to identify additional income/savings of £300,000 in 2016-17, rising to £1,030,000 from 2017-18;
 - (g) the council tax requirement for 2016-17 is £7,852.090;

- (h) the Council sets the amount of Council Tax for each of the relevant categories of dwelling in accordance with Section 30(2) of the Local Government Finance Act 1992 on the basis of a District Council Tax for general expenses on a Band D property of £130.31 plus the relevant amounts required by the precepts of Parish Councils, Cambridgeshire County Council, the Cambridgeshire Police and Crime Commissioner and the Cambridgeshire Fire Authority, details of those precepts and their effect to be circulated with the formal resolution required at the Council meeting;
- (i) the Housing Revenue Account (HRA) revenue budget as summarised in the HRA Summary Forecast 2015/16 to 2020/21 (**Appendix G of the HRA Budget Setting Report**), in the context of the updated 30 Year HRA Business Plan, is approved;
- (j) council dwellings rents for existing tenants be reduced by 1%, in line with legislative requirements, anticipated to be introduced as part of the Welfare Reform and Work Bill 2015, with effect from 4th April 2016, is approved;
- (k) the inclusion of an ongoing savings target for HRA services for the period from 2017/18 to 2020/21, at the initial rate of £250,000 per annum, recognising the financial constraints placed upon the HRA by changes in national housing policy, is approved;
- (l) inflationary increases of 1.4% in garage rents for 2016/17, in line with the base rate of inflation for the year assumed in the HRA Budget Setting Report, is approved;
- (m) proposed service charges for HRA services and facilities provided to both tenants and leaseholders (**Appendix B of the HRA Budget Setting Report**) is approved;
- (n) the charge for the cost of the provision of the alarm service in sheltered housing is set at £3 a week;
- (o) the latest budget, spend profile and funding mix for each of the schemes in the new build programme (**Section 5 and Appendix E of the HRA Budget Setting Report**), is approved;
- (p) the required level of additional funding for new build investment between 2016/17 and 2020/21 to ensure that commitments can be met in respect of the investment of all right to buy receipts retained by the authority, up to the end of December 2015, is approved to earmark;
- (q) the revised Housing Capital Investment Plan (**Appendix H of the HRA Budget Setting Report**), in the context of the updated 30 Year HRA Business Plan, is approved;
- (r) delegation is given to the Executive Director (Corporate Services) in consultation with the Leader, to allow the Self-Build Vanguard scheme to proceed during 2016-17, should the business case presented be financially viable for both the General Fund and the HRA;
- (s) the borrowing and investment strategy for the year to 31 March 2017 (**Appendix D1**) is approved;
- (t) the prudential indicators required by the Prudential Code for Capital Finance in Local Authorities for the year to 31 March 2017 (**Appendix D2**) are approved;
- (u) the Capital Strategy 2016-17 to 2020-21 and Corporate Asset Management Plan 2016-17 to 2020-21 (**Appendices D4 and D5**) is approved;
- (v) any unspent New Homes Bonus money allocated to the City Deal be approved to roll forward to 2017-18; and
- (w) the Executive Director, Corporate Services, be given delegated authority to issue the final version of the Estimates Book, incorporating the amendments required from Council's decisions.

Reasons for Recommendations

4. The consideration and determination of the estimates (budget) and the council tax increase will provide resources for the Council to continue to provide its services over the next financial year in order to achieve the strategic aims as far as possible within the current financial constraints.
5. The consideration and determination of the five year MTFs for the General Fund should give the Council some reassurance that the Council will be able to continue to provide services to the public over the foreseeable future and avoid any unpredicted need for emergency cuts in services to balance its budget.
6. The overall additional income/savings requirement of £1,030,000 from 2017-18 equates to the authority achieving an average cost saving of £16.86 per Band D property from that year. The setting of council tax at £130.31 in 2016-17 would be an increase of £5.00 for a Band D property.
7. The HRA Budget Setting Report is presented to Cabinet and Council, to allow consideration, scrutiny and approval of proposals for the review of rents and service charges, and the revenue and capital expenditure and resources, which form part of the HRA budget.
8. The charge for the cost of the provision of the alarm service in sheltered housing will no longer be subsidised by the County Council, and will be payable by residents in full, as a charge which is ineligible for housing benefit.
9. The latest budget, spend profile and funding mix for each of the schemes in the new build programme recognises the most up to date information available as each scheme progresses through the design, planning, build contract and completion process. New build investment expenditure will either take the form of HRA new build, with the 70% top up met by capital receipts anticipated from the sale of self-build plots or alternatively grants made to a registered provider, where the registered provider will provide the 70% top up to build new homes.
10. As the authority progresses the preparatory work in respect of its role as a self-build vanguard authority, there will be the need to consider and approve a business case for the activity associated with both the need to maintain a register of those interested in self-build and to consider the supply of appropriate land for the purpose of self-build. The business case is anticipated to also include the ability to provide services to prepare parcels of HRA owned land for sale, with the net receipts generated being for the benefit the HRA, and available for re-investment in new build affordable housing.

Background

11. The provisional Local Government Finance Settlement for 2016-17 (“the settlement”) was published on 17 December 2015. Information included in the settlement and figures in the accompanying “Key Information for Local Authorities” and other documents published with it have been used in preparing this report. The report will be considered by Scrutiny and Overview Committee on 4 February 2016.
12. The draft revenue and capital estimates for both the General Fund and HRA are published alongside this report and can be viewed at the following link:
<http://scambs.moderngov.co.uk/ecCatDisplay.aspx?sch=doc>

Considerations

13. These are set out in detail in the Appendices:
 - (a) Appendix A – Capital Programme and associated funding to 31 March 2021;
 - (b) Appendix A1 – Capital Programme Summary;
 - (c) Appendix B – General Fund Considerations;
 - (d) Appendix B1 – General Fund Summary;
 - (e) Appendix B2 – Precautionary Items;
 - (f) Appendix B3 – Medium Term Financial Strategy (MTFS) (General Fund);
 - (g) Appendix B4 – Fees and Charges for 2016-17;
 - (h) Appendix B4(A) – Building Control Fees Summary;
 - (i) Appendix B4(B) – Building Control Fees Schedule;
 - (j) HRA Budget Setting Report (Appendix C)
 - (k) Appendix D – Financial Administration, Borrowing & Investment Strategy and Prudential Indicators;
 - (l) Appendix D1 – Borrowing & Investment Strategy 2016-17;
 - (m) Appendix D2 – Prudential Indicators for 2015-16 (revised) and 2016-17;
 - (n) Appendix D3 – Treasury Management Risk Reports (Restricted);
 - (o) Appendix D4 – Capital Strategy 2016-17 to 2020-21;
 - (p) Appendix D5 – Corporate Asset Management Plan 2016-17 to 2020-21.

14. The underlying assumptions supporting the General Fund estimates and MTFS include:
 - (a) general provision for inflation where applicable of 1.4% in 2016-17, 1.8% in 2017-18, 1.9% in 2018-19 and 2.0% thereafter, in line with the Office of Budget Responsibility (OBR)'s forecast, or actual rates where known. This is applied to both expenditure and income (except the council tax and housing rents and charges);
 - (b) provision for an employer's pension contribution rate of 25% for 2016-17 and subsequent years. This takes account of pensions increases linked to the consumer price index (CPI). The outcome of the actuarial review concluded in December 2013 indicated that a contribution of 25% of pensionable salaries will be required for the next three years, plus a payment of £750,000 from the pension reserve. The 25% is split into two allocations: a cash contribution towards the historic deficit, charged against the General Fund and HRA; and a percentage charge to staffing accounts to meet ongoing future costs.

15. For the HRA, as part of the 2016/17 budget process, the range of assumptions upon which the HRA Business Plan and Medium-Term Financial Review are based, were reviewed in light of the latest information available, culminating in the preparation of the HRA Budget Setting Report. That report provides an overview of the review of the key assumptions, sets out the key parameters for the detailed recommendations and final budget proposals and the financial implications associated with decisions, and is the basis for the finalisation of the 2016/17 budgets. The resulting recommendations (paragraphs 3. (i) to (q) above) refer to the strategy outlined in the HRA Budget Setting Report.

16. The Strategic Risk Register, reported elsewhere on this meeting's agenda, includes a recommended increased risk score relating to the cost of managing Homelessness, because nearly all the mitigation factors previously put in place are being undermined, as set out in that report. While £250,000 has been included in precautionary items for 2016-17, it is considered prudent to include the same amount in the authority's budgets from 2017-18. Further details of demand and costs

emerging over the next year will be reported to Members and updated in future forecasts as appropriate.

Options

Council Tax

17. 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. The MTFs attached as **Appendix B3** has been modelled on this basis.
18. Cabinet could decide to recommend that Council sets the amount of District Council Tax for general expenses on a Band D property for 2016-17 of £130.31. This would result in a council tax requirement of £7,852,090 for 2016-17 and an additional income/savings requirement of £300,000 in 2016-17, rising to £1,030,000 from 2017-18. **This is the recommended option.**
19. Alternatively, Cabinet could recommend increasing council tax by a different amount, for example:
- (a) an increase of £5 in 2016-17 and by 2% thereafter would still result in a Band D council tax of £130.31 and a council tax requirement of £7,852,090 for 2016-17, but a savings requirement of £1,365,000 from 2017-18;
 - (b) an increase of 2% in 2016-17 and thereafter would result in a Band D council tax of £127.81 and a council tax requirement of £7,701,450 for 2016-17, and a savings requirement of £1,570,000 from 2017-18;

These options are detailed in **Appendices B3A and B3B** and, together with the recommended option, are summarised in the table below:

Council tax increase	Resulting council tax	Council tax requirement	Full year savings requirement
£5 pa to 2019-20; 2% in 2020-21 (recommended, Appendix B3)	£130.31	£7,852,090	£1,030,000
£5 in 2016-17; 2% pa to 2020-21 (Appendix B3A)	£130.31	£7,852,090	£1,365,000
2% pa to 2020-21 (Appendix B3B)	£127.81	£7,701,450	£1,570,000

20. The option to increase council tax by 2% (paragraph 19. (b) above) while keeping the additional income/savings requirement for 2016-17 at £300,000, results in a further £150,000 call on General Fund reserves in year, as well as the increased target from 2017-18 on. As a further option, Members could decide not to make the further call on reserves in 2016-17 and increase the target from 2017-18.

Rents

21. Cabinet could decide to recommend that Council reduces rents for existing tenants in line with legislative requirements, anticipated to be introduced as part of the Welfare Reform and Work Bill 2015, with effect from 4th April 2016. **This is the recommended option.**

22. Alternatively, Cabinet could recommend reducing rents by more than the expected legislative requirements; however, this would result in even less financial resources available to invest in housing services, projects and programmes.

Implications

23. 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

24. As detailed in the report and appendices.

Legal

25. The pressure to reduce budgets and the continuation of a poor financial settlement could adversely affect the provision of statutory services.

Staffing

26. The restructurings and additions/reductions in staffing levels have been incorporated in the estimates.

Risk Management

27. Risks and control measures concerning financial projections in the MTFS are included in the Council's Strategic Risk Register, which is appended to the Position Statement report elsewhere on this agenda. The HRA Business Plan has its own associated risk register and is also mentioned in the Strategic Risk Register.
28. Risks with regard to the 2016-17 estimates and the MTFS include:
- (a) Additional income/savings: The actual realisation of the targets which have been included in the estimates and MTFS.
 - (b) Revenue Support Grant (RSG): It is possible that the next budget, spending review or settlement may reduce RSG from 2017-18 on, resulting in savings to be found earlier than forecast.
 - (c) Retained Business Rates (RBR): The settlement introduces an "adjustment" to the tariff deduction for 2018-19 and 2019-20, reducing the amount of RBR available to the authority in those years. This adjustment could be increased, or extended beyond 2019-20. In addition:
 - (i) The settlement does not take into account any enterprise zones that have been approved, nor any devolution agreements that may be made. The financial impact of enterprise zones has yet to be clarified.
 - (ii) It is still very difficult to forecast future RBR income with any certainty. Business rate collection could be reduced if local economic growth does not meet the anticipated level. There are a large number of outstanding appeals still with the Valuation Office Agency (VOA) which the Council have to refund if successful; there is little information about which appeals might be successful and when they might be decided.
 - (iii) An assessment has been made about the potential outcome of appeals, having employed agents to help frame that assessment; final outcomes will be different to that assessment.
 - (d) New Homes Bonus (NHB): The Government is consulting on changing the number of years for which NHB payments are made. The figures 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 payments are to be paid, from six to four years. The Government is also consulting on

other reforms to NHB, which could have adverse implications for the amount that the authority might receive.

- (e) Council Tax: Income would be affected if the number of domestic properties does not increase by as much as profiled in housing trajectory forecasts.

Consultation responses (including from the Youth Council)

29. The MTFs provides the framework within which resources can be allocated to meet the Council's service priorities. The Council's proposed Objectives and Actions for 2015-16 were the subject of public consultation until 31 January 2016. The final Corporate Plan is recommended for approval by Council elsewhere on this agenda; £50,000 has been included in the draft revenue estimates to meet the cost of implementing actions to meet Corporate Plan objectives.
30. The draft revenue and capital estimates have been published alongside this report. The report will be considered by Scrutiny and Overview Committee on 4 February 2016 – feedback from that committee will be reported to Cabinet.

Effect on Strategic Aims

Aim 1 – We will listen to and engage with residents, parishes and businesses to ensure we deliver first class services and value for money

31. The determination of the budget, council tax and rents will provide resources for the Council to continue its services in order to achieve the strategic aims as far as possible within the current financial constraints.

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.

Local Government Financial Settlement
Localised Council Tax Support Scheme
Estimate files in the Finance, Policy & Performance team
Draft Estimates Book

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