South Cambridgeshire District Council

Report To:	Cabinet	4 December 2019
Lead Cabinet Member(s):	Councillor John Williams, Lead Cabinet Member for Finance	
Lead Officer:	Trevor Roff, Interim Director of Finance	

Subject: General Fund Medium Term Financial Strategy

Purpose

1. This report sets out the medium term budget strategy for the Council. The Council refreshes its Medium Term Financial Strategy (MTFS) twice a year in accordance with best practice. This report updates the MTFS to the financial year 2024/2025.

2. This is not a key decision as there are no resource implications directly arising from the report at this stage. The report does, however, ensure that the Council is aware of the financial challenges over the medium term and the financial forecasts outlined in the MTFS assist in the Council's financial planning.

Recommendations

3. **That Cabinet is requested to consider the report and, if satisfied, to:**

   (a) Acknowledge the projected changes in service spending and the overall resources available to the Council over the medium term;

   (b) Recommend to Full Council the Medium Term Financial Strategy at Appendix A and the updated financial forecast at Appendix B.

Reasons for Recommendations

4. To ensure that the Cabinet is aware of the financial challenges over the medium-term and the strategy that is required to ensure that the Council will be in a position to deliver sustainable public services in the future.

5. To provide Cabinet with an update of the financial position and forecasts for the General Fund over the medium term following a review of financial assumptions.

6. To enable the Cabinet to recommend the MTFS to Council for approval in order to assist in the Council's financial planning.

Details

Background

7. The MTFS is the Council's overarching Financial Strategy document and gives financial expression to the Council's plans and fiscal challenges over the medium term. It sets out a range of financial assumptions and in so doing sets parameters within which the Council will deliver key public services over the medium term.

8. The MTFS comprises two key elements (i) an assessment of the resources available to the Council over the medium term and (ii) an assessment of spending pressures based on existing levels of service delivery and known policy/legislative changes. Taken together the movement over the planning period of these two elements represents the financial challenge facing the Council.

9. In order to be able to deliver the Council's aspirations as set out in its Business Plan, approved by Council at its meeting on 21 February 2019, and meet its statutory responsibilities the Council must take a proactive approach to managing its resources effectively. The MTFS is a key tool for proactive financial management which allows for future projected funding requirements to be identified thus enabling the Council to identify appropriate actions to deal with any funding shortfalls.

10. The proposed MTFS covering the period 2021/2022 to 2024/2025 is attached at **Appendix A**. This document sets out the framework within which the financial forecast, summarised at **Appendix B**, has been determined. The forecast shows the level of savings that need to be achieved to deliver the indicative Council Tax level.

11. In considering the impact of the financial forecasts on revenue budgets during the MTFS period and the key issues for consideration, due regard has been given to the local and national policy context, current financial position, economic indicators, risks and assumptions relating to financial planning.

Resources

12. The 2019 Finance Settlement was expected to be a pivotal year for local government as 2019/2020 represents the last year of the current four-year funding settlement. A 3-year spending review (covering the years 2020/2021 to 2022/2023) had, therefore, been expected, together with some major changes in local government funding itself. These included the increase in local business rate share to 75% (from 50%), a business rate baseline reset, a Fair Funding Review, and other changes to key funding streams, such as social care and New Homes Bonus.

13. The Government has, however, now confirmed that there will be a one-year spending review for 2020/2021 with the announcement in September 2019. The announcement means that the Comprehensive Spending Review - which was due to be delivered in the autumn - will now be held in 2020 and will apply from April 2021. It has been assumed, therefore, that the delay of the major changes in local government funding will result in authorities receiving broadly the same resource as they did in 2019/2020.

14. Whilst this benefits the Council in 2020/2021 compared to existing MTFS forecasts, in overall terms there are very significant risks to the funding level from 2021/2022 for District Council's with the expectation that South Cambridgeshire District Council will lose a significant share of its funding as a result of the funding changes – the business rate baseline reset is particularly damaging.

(1) Revenue Support Grant/Business Rates Retention

15. The Business Rate Retention Scheme (BRRS) was introduced in April 2013 to provide Councils with stronger financial incentives to support property development and boost the economy in their local area. It means that Councils bear a proportion of the real-terms change in business rates revenues in their area: gaining when revenues grow in real terms, losing when they fall. The proportion was initially set at 50% across England. In two-tier areas, like Cambridge, 40% is retained by the District and 10% is retained by Cambridgeshire County Council.

16. The introduction of the new funding model for Local Government, predicated on changes to BRSS to enable a 75% retention of Business Rates, will now be introduced effective from 2021/2022 and this will influence the forward financial forecasts. There are a number of issues arising from this:

(a) As the 75% Business Rates Retention model is fiscally neutral (i.e. offset by reductions in funding elsewhere in the system), the existing Revenue Support Grant (RSG) will be funded by Business Rates. This will not affect the Council as the level of retained Business Rates has exceeded the threshold at which RSG would have been payable;

(b) It has been assumed that the tier split for Districts will remain at 40% to enable the County Councils share to be increased to 35% (from 10%) in order to provide additional funding towards adult social care. The government's central share falls, as a consequence, from 50% to 25%.

(c) It is envisaged that there will be a full business rate baseline reset so that all authorities are at baseline when the Fair Funding Review is implemented. The Council will lose significantly from the reset as the total collected from this source is currently in excess of £7 million above the baseline and, in a full reset, this level of growth will be lost. The updated modelling identifies a net loss from BRRS of £2.3 million from 2021/2022.

(d) The Government will be consulting on a Fair Funding Review that will allocate a share of the Local Government Control total to Local Authorities. This review will look at factors that drive spend (population, deprivation) as well as a Council's ability to raise local finance (Council Tax and possibly some elements of Fee Income). It has been assumed that, in overall terms, there will be a cash freeze in the Local Government Control Total.

(e) The Government is additionally looking at how best to build on the current business rates retention scheme and will consider issues such as Appeals, growth and revaluation frequencies/baseline resets.

(2) Rural Services Grant

17. The Council currently receives a Rural Services Grant in the sum of £131,000 in recognition of the additional cost of providing services in sparse rural areas. It is expected that this will roll into the Baseline Funding Level (BFL) because the Council's RSG will be nil from 2021/2022.

(3) New Homes Bonus

18. New Homes Bonus (NHB) funding is currently based on the following:

(a) NHB is payable on housing growth over a threshold of 0.4% of the Tax Base;
(b) Payments are based on a rolling 4 year period.

19. Housing growth has been significant for this Council area and, as such, the Council has benefited from high levels of NHB. The future of NHB, however, looks very precarious and the expectation is that it will be phased-out and that authorities will only receive "legacy" payments. The recent consultation paper gives a clear signal that there will be only two years of "legacy payments" in 2021/2022, and only one in 2022/2023. The additional year that is "earned" in 2020/2021 is only a one-off and will only be paid for one year (with NHB ceasing to exist from 2023-2024 onwards).

20. This is bad news for the Council because it has been a major beneficiary of NHB: it received a peak of £5.2 million in 2016/2017 but the initial reforms of NHB has already reduced payments to £2.473 million in 2019/2020, and these payments would continue to fall if the Government only makes "legacy" payments.

(4) Council Tax

21. Council Tax remains the most predictable and stable element of Local Government funding. This source of income is predicted to yield £9.548 million in 2020/2021 based upon an assumed £5 increase in Council Tax (the maximum level of permitted by Government) and an increase in tax base based upon the housing trajectory.

(5) Fair Funding Review

22. The government is reviewing the funding allocations for local government through the Fair Funding Review (FFR). There are a number of key issues for the Council:

    (a) The indications are that the Government will reduce the number of specific needs formulas (e.g. homelessness costs) and incorporate these into the Foundation Formula, which is where shire districts receive most of their funding. The outcome should be broadly positive for District Councils.

    (b) The indications are that FFR will introduce an average Council Tax as part of the Relative Resources Formula and, if so, this would penalise low Council Tax areas such as SCDC. This process is known as "equalisation", but it is not clear at what level it will be applied: full equalisation would take funding away from high tax-base, low-need councils. The assumption is that partial equalisation will be implemented instead.

    (c) New travel-time and remoteness indicators are to be included within the Area Cost Adjustment (ACA). The Council has very high labour and rates cost adjustments, as well as very high dispersal and traversal indicators (i.e. travel times). In fact, it has the highest dispersal indicator in England. It is expected, therefore, that the Council will receive a higher ACA.

23. It is assumed that funding for "negative" RSG will disappear from 2021/2022 when FFR is introduced. This occurred when an authority's reduction in core funding exceeded the available amount of RSG meaning that the reduction had to be sought from the retained business rates share. The Council should have paid "negative" RSG in respect of 2018/2019 and 2019/2020 but, in both years, it was fully funded by the Government (£661,000 in 2019/2020). It is assumed that this shortfall will continue to be fully funded in 2020/2021.

Medium Term Financial Planning

24. The MTFS forecast, reproduced at **Appendix B**, outlines the financial forecast and the headline figures for the medium term. These are set out in the table below which incorporates a number of planned savings and estimated additional investment income but does not factor in any additional service pressures beyond 2020/2021. Further service pressures will exaggerate the funding gap and, wherever possible, these should be managed within existing budgets. Given the reliance on both Council Tax and Business Rates moving forward it would be appropriate to develop different scenarios in order to provide a sensitivity analysis and, as such, it will enable the impact that different assumptions have on the MTFS forecast to be highlighted and thus the associated risk that the Council must manage over the medium term.

	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
Council Tax	9,548	10,027	10,504	11,008	11,522
Retained Business Rates	7,310	4,961	4,945	4,992	5,027
Revenue Support Grant	-	-	-	-	-
New Homes Bonus	1,851	1,008	478	-	-
Rural Services Grant	131	-	-	-	-
Section 31 Grant	3,176	-	-	-	-
Collection Fund Surplus	626	-	-	-	-
Total Resource	**22,642**	**15,996**	**15,927**	**16,000**	**16,549**
Net Budget Requirement	19,865	19,207	18,361	17,682	17,682
Net Resource Position	**(2,777)**	**3,211**	**2,434**	**1,682**	**1,133**

25. A service transformation programme has been developed in response to the funding gap and the financial challenges over the medium term and a detailed report is scheduled for consideration by Cabinet at this meeting. This is expected to include a programme of targeted service reviews to ensure that value for money is obtained in the delivery of services, together with the continuation of the programme of investment and commercialisation that has commenced, and which has been strengthened by the recent review of the Investment Strategy. The impact of the planned savings and additional income is identified in the table below:

	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
Net Budget Requirement: Before Adjustments	20,016	19,865	19,207	18,361	17,682
Budget Pressures	1,229	-	-	-	-
Savings/Income Identified	(1,740)	(1,045)	(1,152)	(1,115)	-
Other Base Budget Changes	360	387	306	436	-
Budget Requirement c/f	**19,865**	**19,207**	**18,361**	**17,682**	**17,682**

* Further service pressures will exaggerate the funding gap and, wherever possible, should be managed within existing budgets.

26. Council, at its budget meeting on 21 February 2019, envisaged the appropriation of the sum of £4.77 million from the General Reserve balance as a contribution to the funding gap over the period to 2023/2024; this will need to be further considered together with the profile of savings that results from the transformation agenda.

27. Some form of damping is also inevitable from 2021/2022 and it is envisaged that the Council would receive some damping support, although it would be phased out. Modelling, based upon the assumption that the reduction in overall resources does not exceed 5%, indicates damping support of about £3 million in 2021/2022, reduced by phasing to £0.5 million in 2024/2025 and fully phased out in 2025/2026.

28. The financial forecasts are based upon the latest modelling data, but the medium term forecasts and damping should be treated with caution as the final position is uncertain until the provisions of the post 2021/2022 Spending Review are known and are eventually confirmed. There is also concern that any further service pressures over the medium term will exaggerate the funding gap.

29. The Council subscribes to an external funding advisory service, with access to well developed and well respected modelling data. The financial modelling is based upon the latest available data and the following key assumptions have been made in the MTFS forecast (Baseline Model):

Council Tax

(a) For Council Tax, it is assumed that Government will use the existing thresholds for Band D in both a roll-over in 2020/2021 and once a new spending review has been announced. The MTFS baseline model, therefore, includes an increase in Band D Council Tax of the higher of £5 or 2.99% in each year. This increase is for planning purposes only, and no decision has been made on the actual level of Council Tax increases in the medium term.

(b) The projected increase in the Council tax-base is calculated using the Housing Trajectory in 2021/2022 and the two-year moving average, but an adjustment has been made to the two year average for a spike that occurred in 2019/2020 [which resulted in much higher growth than the previous three years increase] in order to show a realistic future growth rate.

Business Rates

(a) The rateable values of non-domestic properties are subject to periodic revaluation by the Valuation Office Agency (VOA), normally every five years although as part of Business Rates Retention it has been suggested that a more frequent revaluation take place. The MTFS has been updated to reflect the revised baseline and yields based on the current position.

(b) In estimating rates yield from retained business rates for the purpose of the MTFS, the NNDR1 2019/2020 statutory return has been used and no further growth has been assumed in the baseline model. The following key assumptions have also been made:

- The current provision for existing Appeals is sufficient;
- The are no further significant changes to valuation schemes resulting from Tribunal or Court decisions;
- There are no significant variations to the levels of rate reliefs;
- The compensation to Local Authorities by way of Section 31 grants to cover the cost of measures introduced to help businesses (e.g. Small Business Rates Relief) will continue and will be increased annually in-line with inflation (if the grants are discontinued it is anticipated there will be a compensating increase in the yield).

Other Base Budget Changes

(a) The revenue impact of the latest Capital Investment Programme needs and priorities has been included in the projections. Interest rate forecasts have been assumed to continue at low levels for the duration of the MTFS, although the recent 1% increase in PWLB borrowing rates has been factored into the forecasts. Investment income has been determined having regard to the level of expected balances, including capital receipts and expenditure, together with Reserves and Provisions held by the Council.

(b) Provision has been made for the establishment of a Renewal and Repairs Fund for plant and equipment, including IT equipment, with revenue contributions built into the budget rather than recourse to borrowing and its associated costs. The extent to which this can be achieved in 2020/2021 will depend on the extent of savings achieved and other funding pressures that will impact on the delivery of a balanced budget.

(c) An allowance has been made for increased pressures relating to the cost of waste disposal, and an additional waste round in 2020/2021 arising from the increase in the number of new properties across the District.

(d) Provision has been made in the forecasts for the creation of core in-house capacity in the organisation to deliver large capital investment projects.

(e) An allowance has been made for inflation on the Council's key contracts; and fees and charges. Allowance for a pay award and pay increments (including National Living Wage increases) over the period has also been included.

(f) The MTFS incorporates estimated income from Ermine Street Housing Limited for the repayment of loans to reflect the commitments made in the approved Capital Programme.

Implications

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

Legal

31. It is a legal requirement that the Council set a balanced budget for the ensuing financial year; the MTFS provides the framework for this and brings together funding and spending assumptions over the medium-term thereby identifying funding shortfalls and providing sufficient time for decisions to be made in order to achieve balanced budgets over the medium term.

Policy

32. The financial strategy needs to have regard to the "resource envelope" available to the Council. This includes the transition to the new funding model, introduced in 2013/2014, predicated on the Business Rates Retention Scheme which means that the Council's net spending is financed from local sources; Business Rates and Council Tax. As part of this continued transition the Government have been consulting on a Fair Funding Formula that will change the method of distributing funding levels across Councils based on "Need" and "Local Resources". In addition, the MTFS period is outside of the current Spending Review period and, as such, the Government has not set out the spending limits beyond 2020/2021.

33. The Council has adopted its Business Plan for the period 2019-2024. The areas of focus and key priorities within the Business Plan inform the policy framework for achieving the required ongoing savings whilst meeting the Council's strategic objectives and statutory obligations.

Finance

34. The MTFS is the Council's key financial planning document and sets out the Council's strategic approach to the management of its finances and Council Tax levels over the medium term, thereby allowing sufficient lead time to develop services consistent with the forecast resource envelope.

35. The MTFS forecast covering the period 2021/2022 to 2024/2025, is attached at **Appendix B**, and is based upon the assumptions underpinning the financial projections and overarching plan. The forecast shows the level of savings that need to be achieved to deliver the indicative Council Tax level.

Risk

36. There are inherent risks in developing a financial strategy over the medium term, not least due to the uncertainty of funding streams; this is particularly relevant as the outcomes of the Fair Funding Review and Spending Review post 2021/2022 are not known. In order to mitigate this risk alternative MTFS scenarios have been developed highlighting the impact of different assumptions on the Council's medium term financial outlook and these are shown at **Appendix B**.

37. There are a number of other risks that need to be understood and broadly these fall into two categories:

    (a) Savings: it is inevitably more difficult to continue to reduce costs and put in place savings after an extended period of reduced funding, without impact on service provision. It should be noted that the legal requirement to set a balanced budget on an annual basis requires the Council to reduce its net costs in line with funding.

    (b) Economic: The impact of Brexit and wider economic pressures may impact on the Council's finances over the medium term and it is, therefore, important for the Council to assess the potential level of potential risk. This could arise from (i) reduced economic activity adversely business rate income, (ii) reduced income arising from fees and charges, (iii) increased costs, including welfare related costs and (iv) potential impact on the Council's supply chain.

38. As the Council reviews the MTFS twice a year, it is able to assess the robustness of the MTFS forecast, reassess risk and, where appropriate, refresh the forecast.

Environmental

39. There are no environmental implications arising directly from the report.

Effect on Council Priority Areas

40. Timely and robust consideration of the Council's financial forecasts and budget setting is vital to ensure that financial performance is in line with expectations, emerging issues are identified and tackled and that Business Plan priorities are met.

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.

The following documents are relevant to this report:

- General Fund Medium Term Financial Strategy – Report to Cabinet: 7 November 2018
- Budget Report – Report to Cabinet: 6 February 2019
- Business Plan 2019 - 2014 – Report to Council: 21 February 2019
- Medium Term Financial Strategy and General Fund Budget – Report to Council: 21 February 2019
- An Organisation for a Sustainable Future – Report to Cabinet: 1 May 2019
- General Fund Capital Programme Update and New Bids – Report to Cabinet: 6 November 2019
- MTFS – Forecasts and Assumptions: November 2019

Appendices

A Medium Term Financial Strategy

B Financial Forecasts 2021/2022 to 2024/2025

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Appendix A

Medium Term Financial Strategy 2020-2025

November 2019

Councillor John Williams
Lead Member for Finance

Peter Maddock
Head of Finance

Contents

Introduction

1. The Medium Term Financial Strategy (MTFS) is the Council's key financial planning and policy document. It sets out the:

   - Policy Context of the Strategy;
   - Linkage of the Medium Term Financial Strategy to the Business Plan;
   - Revenue Budget;
   - Capital Budget;
   - Financial Outlook – Capital and Revenue;
   - Efficiency Requirements;
   - Risk.

2. The MTFS has to be considered as part of a corporate wide process and it links into the wider decision making of the Council.

Policy Context of the MTFS

3. The MTFS is the Council's overarching Financial Strategy and Policy document. The purpose of the MTFS is to give financial expression to the Council's plans over the medium term in the context of the Council's longer term plans as set out in the approved Business Plan (approved by Council on 21 February 2019).

4. The MTFS sets out the Council's funding plan, for achieving its goals and priorities, thus balancing available financing and spending ambitions. It highlights the financial projections for financing, spending (revenue and capital), and reserves. It also highlights the underlying financial strategy, the financial assumptions, and the inherent financial risks. Importantly, it endeavours to link decisions on resource allocation to decisions on policy priorities.

5. In addition, the Council has approved corporate policies which, in addition to the MTFS, act as a cornerstone of its Financial Management. These include:

   - Investment Strategy;
   - Corporate Asset Plan;
   - Value for Money Strategy;
   - Procurement Strategy;
   - Organisational Development Strategy;
   - Risk Management Strategy;
   - Digital Strategy.

6. Looking ahead, the Council's financial planning process will continue to develop. It will promote the best use of limited financial resources and facilitate the alignment of those resources to the Council's priorities. Base budgets will be analysed with increasing sophistication and spending that does not contribute to Council priorities will come under increasing levels of scrutiny.

Linkage to the Business Plan

7. The Council's key priorities and areas of focus are expressed in its approved Business Plan and the allocation of resources over the medium term is intended to reflect the established priorities.

8. In developing the Business Plan and the MTFS, it is important to give full regard to the following:

   - national and local priorities;
   - stakeholder and partner views;
   - external drivers, including funding variations and requirements to improve economy, efficiency and effectiveness;
   - capital investment plans and their revenue implications;
   - risk assessments and financial contingency planning;
   - sensitivity analysis;
   - expected developments in services.

9. The Council needs to manage the continued high level of population growth and economic growth and the resulting impact on Council services, while continuing to improve, in order to meet its ambition to become an excellent authority. The MTFS must recognise these challenges and, in doing so, takes its lead from the strategic goals and priorities outlined in the approved Business Plan.

Revenue Budget

Revenue Budget Planning

10. The Council's financial planning for 2021/2022 to 2024/2025, as set out in this Strategy, is to contribute to the Council's overall vision and priorities by:

    - Securing stable and sustainable budgets within the financial resources available;
    - Ensuring that limited resources are focussed towards the Council's highest priorities;
    - Recognise risks and ensure an adequate level of financial protection against risk by maintaining a prudent level of financial reserves;
    - Securing an understanding of sources of potential finance;
    - Building financial capacity for fundamental change;
    - Being flexible to allow shifts in spending if circumstances change;
    - Ensuring that the Council is not overburdened with financial commitments.

11. The Council's MTFS is reviewed twice per year on a rolling basis and, through the revenue budget determination process, seeks to link decisions on resource allocation with decisions on policy priorities.

12. The clear message is that budget setting and medium term financial planning will be tough over the duration of the MTFS and the following financial objectives will, therefore, help guide budget proposals:

- A sustainable medium term financial plan that allows the achievement of the Council's key objectives;
- Realistic levels of year on year spending which are supportable via annual income streams and do not require the use of general reserves to support recurring expenditure;
- General reserves should be maintained at all times at or above the agreed minimum level;
- Constraining annual Council Tax increases to an acceptable level (and within any Referendum Limit issued by The Secretary of State);
- The pursuance of "invest to save" opportunities with a financial return on the investment in transforming activities over an acceptable payback period;
- A commitment to explore income generation opportunities and to maximise income from fees and charges;
- A commitment to maximise efficiency savings.

13. Full regard will be given to Revenue Budget forecasts (annually updated in this Strategy) and any increase in the ongoing annual Revenue Budget (by way of use of the contingency provision or virement) will be subject to the expenditure being either legally unavoidable or considered affordable after taking into account:

- any forecast savings targets;
- Implications on Council Taxpayers in future years.

14. In the light of any forecast savings targets, every effort will be made to increase annual income sources and reduce annual expenditure without materially reducing front line services provided by the Council.

15. Notwithstanding 14 above, if the Council is facing a position whereby the ensuing year's forecast expenditure is more than the forecast total income to be received, it can elect to consult Council Taxpayers on either the option to reduce service levels or increase Council Tax and the Council will have regard to the consultation outcome before it reaches its final decision. The Council is required to hold a referendum for any Council Tax rise in excess of an amount set by the Secretary of State, in January each year, to ensure that Taxpayers support the proposed Council Tax increase.

Revenue Budget Policy

16. To ensure a continuously stable financial base for the provision of Council services and functions, the Council will ensure that annual ongoing General Fund revenue expenditure can be covered by annual income sources across the MTFS period.

17. The Council recognises that any significant use of reserves to fund ongoing expenditure commitments is unsustainable in the medium term.

18. A prudent level of revenue contingency [defined as Precautionary Items] will be maintained to enable unforeseen and "one off" needs (i.e. having no long term ongoing revenue commitment) to be considered for funding.

19. Under Section 25 of the Local Government Act 2003, before approving the ensuing year's Capital and Revenue Budget, the Council is required to receive and take into account a report of the Chief Finance Officer on the robustness of the estimates leading to the Council's Council Tax requirement and the adequacy of financial reserves. Council needs to consider:

- affordability (having regard to Council Tax implications);
- prudence (having regard to Council policies/strategies);
- sustainability (having regard to forecast annual expenditure and income);
- In addition, it must also take into account risks and impact on reserves.

20. The Council's financial strategy reflects the anticipated funding gap over the medium term and, as such, it highlights that over the period resources are not going to be able to sustain the current level of spend. Consequently, the Council has put in place a transformation programme comprising service and efficiency reviews that will look to reduce costs and better focus resources on the Council's Business Plan priorities.

Revenue Budget Monitoring

21. There is a need for effective budget monitoring to be undertaken in line with the Council's Financial Regulations as this will enable the Cabinet to put plans in place to address forecast budget issues.

22. The Cabinet will, therefore, receive regularly reports in respect of budget trends and, as part of these monitoring reports, will identify potential variations to the approved budget and consider appropriate action. Where possible, performance data will be developed over time and reported as part of the process of linking budget allocations to performance attainment.

Value for Money

23. Each Service/Function Budget submitted to Cabinet/Council as part of the annual budgetary process will have regard to the need to secure economy, effectiveness and efficiency as detailed in the Council's approved Value for Money Strategy.

Financial Regulations

24. Council, Cabinet and Lead Cabinet Members shall adhere to all Budgeting (including Budget Preparation, Monitoring and Control) requirements as set out in the approved Financial Regulations of the Council. Officers shall adhere to detailed financial procedures issued by the Head of Finance (as the statutory Chief Finance Officer) as required by Financial Regulations.

One-Off Savings, Fortuitous Income and Fixed Term Funding

25. Given that the Council, from time to time, achieves one-off revenue savings or receives fortuitous income these monies will ordinarily accrue to the general contingency and could be used to meet:

- any unavoidable one-off expenditure;
- one-off expenditure consistent with Business Plan Priorities.

Growth Prospects

26. The Local Government Finance Act 2012, and associated subsequent regulations, introduced extensive changes to local government finance from April 2013, including provisions for local authorities to retain a portion of the revenue that is collected from the Non-Domestic Rates payable in respect of properties situated in their area.

27. The Business Rates Retention Scheme is based upon a policy initiative to promote economic growth through aligning financial and business growth benefit for Councils and, given the economic outlook and the increased reliance on locally raised taxation, the Council's financial planning needs to address the benefits and risks of this funding structure. The Council will, therefore, actively pursue growth opportunities through its Economic Growth Strategy in order to maximise revenue from this source but also give due regard to the potential for and impact of reduced yield arising, for example, from rating appeals (i.e. reductions in rateable value).

Investment Opportunities

28. The Council has finite resources and will seek to supplement its resource base by exploring income generation opportunities, with appropriate emphasis on the pursuance of "invest to save" opportunities where statutory powers exist and where there is a financial return on the investment over an acceptable payback period. This includes, for example, returns generated from the wholly owned company (Ermine Street Housing), investment in the Council's commercial property portfolio in line with the approved Investment Strategy with a view to enhancing revenue benefits and deriving a financial payback from acquisition of new income earning assets.

29. The Investment Strategy sets out how the Council determines its capital investment priorities in particular in relation to corporate priorities taking into account the capital resources available including borrowing in line with the Council's approved Prudential Indicators. In determining the appropriateness of investment opportunities, the provisions of the Investment Strategy should be fully observed.

Reserves

30. The Cabinet, as part of the annual budgetary process, or at such other times where it is necessary, will identify one-off unavoidable expenditure and one-off expenditure for identified requirements. Such funding will be held in earmarked reserves until spent but will be subject to annual review by the Cabinet as part of the annual budget process to determine whether the monies still need to be held and that the balances held comply with professional guidance.

31. The Cabinet will, as part of the provisional outturn each year, review the level of General Fund Balance based on a risk assessment. The General Fund Balance should not be adjusted without a full risk assessment.

32. Thus, the policy on reserves is to:

    (a) establish earmarked reserves for specific commitments and make them subject to review as outlined above;
    (b) only adjust the General Fund Balance based on a full risk assessment.

(c) enable Directorates/Service Areas to carry forward legitimate under-spends for project based work and planned expenditure commitments subject to:

i. An overall underspend within the Council (with any overspends taking first call on any underspends);

ii. An overall underspend within the Directorate (with any overspends taking first call on any underspends);

iii. A brief explanation by the service demonstrating the reasons for the underspend and the continuing service requirement;

iv. Approval by the Head of Finance.

Contingency Allocation

33. The appropriate level of contingency will be assessed as part of each budget setting process in the context of the risk profile and the level of reserves available. Specific contingency items shall be identified as Precautionary Items in the Council's revenue budget and these Precautionary Items shall not be released until year end, and then should be allocated to areas that have incurred unexpected costs or not achieved expected income levels during the financial year.

34. The contingency is to cover:

(a) any net reductions in income sources during the year compared to the levels estimated;

(b) any unavoidable expenditure falling on the Council during the year which is not known at this time;

(c) any "one-off" expenditure needs which arise during the year and are considered critical to achieving the Business Plan requirements.

Capital Budget

Capital Strategy

35. The Council's Capital Programme is determined, prioritised, delivered and monitored in accordance with the Council's approved Capital Strategy. This Strategy is subject to annual review by the Cabinet.

36. The Capital Strategy outlines the Council's approach to capital investment ensuring that it is directed to the Council's Business Plan priorities. It provides the framework for the Council to maximise the finance available for investment together with the allocation of capital reserves.

37. The Strategy, therefore, provides a mechanism for the Council, the Cabinet and its officers to manage, measure and monitor the Council's Capital Programme including an annual review of investment needs targeted to key investment priorities.

38. Capital Scheme Bids will be evaluated and prioritised in accordance with the approved Capital Strategy and based on the priorities in the approved Business Plan.

Capital Finance Policy

39. The Council has a number of methods of ensuring the most effective use of available capital finance. These include:

    (i) The Council will each year consider the proposed Capital Programme having regard the CIPFA prudential indicators. Council will consider the extent of borrowing based on these indicators.

    (ii) The Council will seek to maximise resources for capital investment from all potential sources.

    (iii) Any savings made on capital schemes will potentially reduce the need for external borrowing.

    (iv) A prudential financial framework will be maintained so that, once priorities have been determined, no capital scheme can be authorised (and no commitment made) until:

        (a) capital finance is in place to cover the full capital costs; and

        (b) it has been determined that the ongoing revenue cost consequences are affordable in the light of forward three year Revenue Budget forecasts and related Council Tax consequences.

40. An annual review of the Capital Programme will be undertaken and, in doing so, full regard will be given to the Prudential Indicators before any proposals/decisions are made in respect of a revised programme. There is a need to be cautious in terms of future borrowing requirements given the capital financing costs and future decisions will need to balance the need for, and cost of, investment or failure to invest. Endeavours will be made to support revenue contributions to capital expenditure to ensure that funding is available for essential ongoing investment needs.

Efficiency Requirements

41. The ongoing financial challenges will require the Council to continue to make radical changes in order to transform itself to deliver sustainable services to its residents. The indications are that future spend pressures will significantly exceed the forecast growth in resources (with a significant impact on the delivery of services), which requires the Council to plan for ongoing efficiencies in relation to the provision of services. The financial planning process will, therefore, facilitate the identification and delivery of efficiency savings with emphasis on challenging service delivery, comparing performance, outcomes and delivery options, ensuring competitiveness and consulting fully on emerging proposals and service options.

42. In response to the reduction in Government Grant, set against anticipated spending demands, and the ongoing commitment to efficient and cost effective service delivery, the Council has put in place a programme of initiatives designed to review services delivered, review and improve internal processes and reappraise the workforce model required to deliver services in the most efficient and effective manner.

43. The Council will continue to look for efficiencies and better ways of working as part of the day to day operations of the business, including:

    (a) Creating capacity through additional efficiencies and service delivery options;

    (b) Implementing demand management strategies including investment in technology to enable Channel Shift;

    (c) Increasing Business Rate income through economic development activity;

    (d) Raising additional revenue such as increasing income and external funding;

    (e) Identifying opportunities to “invest to save”.

44. As part of this process, all bids for additional resources must be accompanied by a quality business case and such proposals will be subjected to more rigorous challenge through the strong corporate ‘management line’ within Services, as well as peer review by other Services.

Risk

45. As far as possible, changes in the Council's financing and spending from year to year should be predictable and manageable so that key services can be protected. That can never be entirely the case, hence the need for the Council to recognise and manage financial risks, including the identification of the significant risks in terms of the spending assumptions (see section 43 above). Sound financial planning processes are critical in predicting and managing the limited resources available.

46. The purpose of this strategy is to provide the key financial planning tool of the Council. Without forward financial planning difficulties will arise in respect of:

- not meeting the Council's own policy on Council Tax increases;
- not meeting any Government targets on Council Tax increases so as to avoid a Council Tax Referendum;
- not having sufficient Capital Resource to fund the approved Capital Programme.

47. It is important that, in considering Revenue and Capital Budgets, factors which could make the projections worse are identified. The Council will, therefore, as part of its decision making, consider the risk implications of all proposals. By adopting the actions in this Strategy, the risks outlined above should be mitigated.

Summary & Conclusion

48. This Strategy sets out how the Council will resource its Revenue Budget and Capital Programme over the Medium Term having regard to the policy objectives of keeping Council Tax increases within Government guidelines.

49. The MTFS represents the Council's overarching Financial Strategy and Policy document and it gives financial expression to the Council's plans for the next five years, in the context of the plans set out in its Business Plan. It, therefore, sets out the Council's funding plan, for achieving its goals and priorities, balancing available financing and spending ambitions and, in doing so, highlights the underlying financial strategy, the financial assumptions, and the inherent financial risks. Importantly, decisions on resource allocation are linked to decisions on policy priorities.

50. The MTFS will be kept under review and, as a minimum, will be reviewed:

- In Autumn prior to considering the annual budget setting report to Council;
- As part of the budget setting report, taking into account the financial forecasts that are available at that time.

Appendix B

Medium Term Financial Strategy

Financial Forecasts 2021/2022 to 2024/2025

	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
Council Tax	9,548	10,027	10,504	11,008	11,522
Retained Business Rates	7,310	4,961	4,945	4,992	5,027
Revenue Support Grant	-	-	-	-	-
New Homes Bonus (NHB)	1,851	1,008	478	-	-
Rural Services Grant	131	-	-	-	-
Section 31 Grant	3,176	-	-	-	-
Collection Fund Surplus	626	-	-	-	-
Total Resource	**22,642**	**15,996**	**15,927**	**16,000**	**16,549**

Net Budget Requirement: Before Adjustments	20,016	19,865	19,207	18,361	17,682
Budget Pressures *	1,229	-	-	-	-
Savings/Income Identified	(1,740)	(1,045)	(1,152)	(1,115)	-
Other Base Budget Changes	360	387	306	436	-
Net Budget Requirement	**19,865**	**19,207**	**18,361**	**17,682**	**17,682**

Net Resource Position	**(2,777)**	**3,211**	**2,434**	**1,682**	**1,133**	**5,683**

* Further service pressures will, however, exaggerate the funding gap and, wherever possible, should be managed within existing cash limit budgets.

MTFS: Key Assumptions

The assumptions are outlined at paragraph 29 of the report and are summarised as follows:

(a) Council Tax: An increase in Band D Council Tax of the higher of £5 or 2.99% in each year.

(b) Council Tax: The increase in the Council tax-base is calculated using the Council's housing trajectory for 2021/2022 and the two-year moving average thereafter.

(c) Business Rates: No further growth has been assumed in the baseline mode, balancing the opportunities of the growth area with the current economic caution, but an inflationary increase has been applied to the Business rates multiplier.

(d) Business Rates: The current provision for existing Appeals is sufficient and there are no further significant changes to valuation schemes resulting from Tribunal or Court decisions or to the levels of rate reliefs.

(e) Other Base Budget Changes: Allowance has been made for the following:

- The revenue impact of the latest Capital Investment Programme needs and priorities has been included in the projections.
- Interest rate forecasts have been assumed to continue at low levels for the duration of the MTFS, but the recent increase in PWLB rates by 1% has been factored into the modelling.
- Investment income has been determined having regard to the level of expected balances, including capital receipts and expenditure, together with Reserves held.
- An allowance has been made for increased pressures relating to the cost of waste disposal, and an additional waste round in 2020/2021 arising from the increase in the number of new properties across the District.
- Provision has been made for the establishment of a Renewal and Repairs Fund with revenue contributions built into the budget rather than recourse to borrowing and its associated costs.
- Provision has been made in the forecasts for the creation of core in-house capacity in the organisation to deliver large capital investment projects.
- An allowance has been made for inflation on the Council's key contracts; and fees and charges. Allowance for a pay award and pay increments (including National Living Wage increases) over the period has also been included.
- The MTFS incorporates estimated income from Ermine Street Housing Limited for the repayment of loans to reflect the commitments made in the Capital Programme.