REPORT TO:	**CABINET**
DATE:	**24 JANUARY 2019**
TITLE:	**MEDIUM TERM FINANCIAL STRATEGY 2019/20**
PORTFOLIO HOLDER:	**COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES**
LEAD OFFICERS:	**SIMON FREEMAN, HEAD OF FINANCE AND DEPUTY TO THE MANAGING DIRECTOR (01279) 446228** **SENIOR MANAGEMENT BOARD (01279) 446004**

This is a Key Decision
It is on the Forward Plan as Decision Number I008574
The decision is not subject to Call-in Procedures for the following reason:
The decision stands as a recommendation to Full Council
This decision will affect no ward specifically.

RECOMMENDED that Cabinet recommends to Full Council that**:**

A The Medium Term Financial Strategy for 2019/20 to 2021/22 (attached as appendix B to the report) is adopted.

B The planned Council Tax increase of two per cent for 2019/20 as set out in the Medium Term Financial Plan be approved.

C The proposals in relation to reserves as set out in this report at paragraphs 23 to 29 and contained within Section 8 of the Medium Term Financial Strategy be approved.

REASON FOR DECISION

A To enable Cabinet to consider the current factors influencing the three year Medium Term Financial Plan and agree the financial strategy for the period 2019/20 to 2021/22 in support of the overall financial plans of the Council over that period and the delivery of its priorities.

BACKGROUND

1. The Medium Term Financial Strategy (MTFS) provides the parameters for the Council's revenue spending and capital investment plans for the next three years. The revision of the MTFS has incorporated the agreed funding under the

Government's four year deal with 2019/20 being the final year of the deal. Thereafter the Local Government Finance Settlement will be subject to revision and a transition to the new 75 per cent Business Rates Retention scheme.

2. As with the previous revision of the MTFS, there are a number of key issues which could impact upon it over the three year planning period including:

    a) The future move towards 75 per cent retention of Business Rates, subject to conditions being applied and the possible transfer of additional responsibilities from 2020/21

    b) The Government's continued austerity plans and the ongoing restrictions that this approach places upon the overall public sector finance settlements through to 2019/20

    c) The immediate and medium term impacts of the Brexit process should Britain achieve its planned exit from the European Union in March 2019

    d) Any further Government interventions in rent setting policy

    e) Welfare reform and the roll out of Universal Credit full service by managed migration by 2023. it is still difficult to predict the financial costs, the community and social impacts and the future losses on the HRA rent account as a result of this migration

    f) Uncertainty regarding the Right to Buy (RTB) extension to housing associations which are financed by Councils' RTB receipts.

3. There remains significant uncertainty with regard to the funding arrangements for the local government sector beyond 2019/20 both in terms of the new methodology and the actual level of resources to be distributed through that mechanism all of which makes any meaningful financial planning very difficult to predict and forecast. With an anticipated move towards funding being wholly based around the new Business Rates Retention scheme, the economic conditions locally and regionally will play an increasingly important role in terms of the predicted business rates forecasts and the baseline funding level set by the Government.

4. The MTFS is informed by, and supports the Council's Corporate Plan, which appears elsewhere on the Cabinet agenda. The key corporate priorities as set out in the Corporate Plan, are as follows:

    a) More and Better Housing

    b) Regeneration and Thriving Economy

    c) Wellbeing and Social Inclusion

    d) A Clean and Green Environment

e) Successful Children and Young People.

ISSUES/PROPOSALS

Proposed amendments to the previously approved MTFS (February 2017)

5. The key messages contained in Section 1 of the proposed MTFS continue to form the cornerstone of the Council's financial planning. Proposed changes in key assumptions underpinning the financial forecasts are set out in Appendix A to this report, and mainly relate to changes at a national level or the content of the draft Local Government Finance Settlement announced on 13 December 2018.

6. Proposed key amendments to the Strategy are set out below:

   a) As a result of the significant uncertainties surrounding the funding changes proposed for local government, the planning period covered by the MTFS remains restricted to three years.

   b) Changes are made to the reserves as set out in paragraphs 23– 29 below.

7. The resulting General Fund Medium Term Financial Plan (MTFP) (attached as Appendix E to the report) shows that, subject to the assumptions that have been made, the Council is able to deliver a balanced General Fund budget for 2019/20 and will have forecast budget gaps in 2020/21 and 2021/22 of £75,000 and £254,000 respectively with no dependency on general reserves. It should be noted that the projected budget is subject to the Government's future funding allocations to the Council, the on-going economic environment in which the Council will operate and any investment requirements needed for existing and on-going service delivery.

8. In considering the budget proposals contained within this report it is important to appreciate the savings already delivered by the Council in recent years. Table 1 below summarises the savings over the last 12 financial years.

Table 1 – Savings over the last 12 Financial Years

	2007/08 to 2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Annual Savings	-	1,264	1,527	1,286	1,000
Cumulative Savings	16,386	17,650	19,177	20,463	21,463

9. In light of the scale of the reductions and in the absence of any assurances that local growth in business rates will compensate for the reduction in the Revenue

Support Grant (RSG) element of the Council's Settlement Funding Assessment (SFA), the protection of services cannot be guaranteed in future years.

Council Tax Levels

10. The MTFS forms a key planning tool for budget setting purposes. Economic indicators forecast that the level of inflation will be as set out in the table 2 below. It should be noted that many forecasting sources exist and that the Council has relied upon advice from its treasury management advisors in producing the information.

    a) The Council Tax Band D amount proposed in the 2019/20 Budget represents a two per cent increase in the district element when compared with 2018/19.

    b) The Localism Act introduces the need to hold local referendums in relation to Council Tax increases if those increases are above the limits set by the Government. The Secretary of State announced in the draft finance settlement that the limit on Council Tax increases for 2019/20 will be three per cent or £5 before a requirement to hold a local referendum would be triggered. There will be no requirement to test the 2019/20 budget proposals against this requirement as the MTFS contains proposals which fall below the Government set limits.

Table 2 – Forecasted Levels of Inflation

Index	Apr 18	Sep 18	2019
CPI	2.4	2.2	2.1
RPI	3.3	3.2	3.0

CURRENT ISSUES INFLUENCING THE MTFS

The Comprehensive Spending Review

11. The Government's Comprehensive Spending Review (CSR) process has made significant reductions to the financial settlement for Councils. At a local level Harlow has seen reductions in its grant as shown below.

Table 3 – Grant Reduction Levels

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Grant Reduction	15.2%	11.8%	7.68%	14.6%	13.7%	14.2%	15.9%	10.1%

12. The draft settlement released on 13 December 2018 confirms that the Government continues to use the retained RSG element of the SFA arrangements to influence the overall level of funding made available to councils, whilst at the same time transferring the risk of a fall in business rates collectable to councils under the Business Rates Retention (BRR) Scheme. As such, a medium term priority is to ensure that sustainable budgets can be

delivered in future years with Business Rates and Council Tax forming the two key revenue streams for the Council. The release of the draft settlement has also confirmed that the funding available under the Government's four year deal, agreed by Cabinet at its meeting on 13 October 2016, has been met and subject to there being no changes in the final settlement in early 2019 this should not create any further financial pressure for the Council.

13. The proposals contained within the MTFS and the General Fund Revenue Budget 2019/20 paper elsewhere on the Cabinet agenda will be sufficient, if agreed, deliver a projected balanced budget for 2019/20.

Business Rate Retention

14. The BRR Scheme has operated since 2013 and as previously reported will increasingly feature as the core source of direct Government funding within SFA. The BRR Scheme was intended to see a simplification of Council funding arrangements and to incentivise Councils to encourage economic growth in their areas. In return, this would improve the business rates collectable and therefore the funding retained locally through the new funding arrangements.

15. The new funding system still retains the RSG system within the SFA which in itself is extremely complex and assesses a Council's funding need on four key formula driven elements. It is very much a mechanism which can be used by the Government to influence Council funding at a national level. In line with the four year funding deal accepted by the Council the forward forecast of funding received through the RSG element of SFA has now reduced to a negative sum. In the draft settlement the Government has given a commitment to all local authorities placed in this position by the funding formula to fund the negative element of RSG through the central share of business rates which will leave no impact locally for Councils. Had the Government not agreed to this approach the Council would have been required to find a further £295,000 in savings to deliver a balanced budget.

16. As previously reported, BRR is not only more complex than had been envisaged and includes the transfer of risks to councils, but it also introduced the redistribution of significant proportions (50 per cent) of locally collected business rates directly back to the Government.

17. Whilst progress had been made in relation to the development of the full business rates retention proposals some of the momentum has been lost following the EU referendum, the June 2017 General Election and the refocussing of Government resources dealing with the Brexit negotiations. In the absence of primary legislation the Ministry for Housing, Communities and Local Government (MHCLG) are considering ways in which the Government's manifesto commitment to give local Government greater control over their income can be taken forward and whilst it had been widely anticipated that the new funding arrangements for local government would be implemented from April 2019 the Government is moving ahead with proposals with further consultations announce under the draft settlement which should lead to the implementation being effective from 2020/21. If this is not achieved it is still very

difficult to see how the existing system will be moved forward in the light of 2019/20 being the final year of the four year funding deal for local Government. In the absence of any firm proposals or funding exemplifications for 2020/21 and beyond the MTFS has assumed an annual one per cent reduction in the level of retained business rates in line with national forecasts of Resource Departmental Expenditure Limits (RDEL).

Business Rates Pooling

18. A business rates pool has operated within Essex during 2018/19 with the Council having joined for the first time as a result of improving business rates forecasts. The major benefit of being in a pool is the reduced levy rate applied to the local business rates growth achieved in the year. In addition an Essex bid was made to become a BRR Pilot area but unfortunately the draft Local Government Settlement announced on 13 December 2018 has confirmed that the Essex wide bid was not successful. However, it has been confirmed that the Essex pool will continue in to 2019/20.

Welfare Reform

19. As previously reported, the Localism Act 2011 contained a number of provisions which impact on the Council and its financial position. One of the key changes was the localisation of the previous national Council Tax Benefit Scheme. The Council continues to work hard to ensure that the impact on local residents resulting from the introduction of the Local Council Tax Support Scheme (LCTSS) and the funding cut implemented by the Government is minimised as far as possible.

20. The Council has once again worked with the major precepting bodies to ensure that the Hardship Fund, established to support the most vulnerable within the local community, will continue in 2019/20. The Fund has been fully utilised in each of the years since it was established and is likely to be so again in 2018/19. To provide as much stability as possible to those households impacted by the introduction of the LCTSS, the Council’s scheme will remain unchanged in 2019/20, as agreed by Council at its meeting on 18 December 2018.

The Economic Conditions

21. Although the economy has shown signs of improvement, the fragile economic climate fuelled by the Brexit negotiations and the eventual withdrawal of the UK from the EU in March 2019 continues to impact upon the Council. This creates risk and uncertainty for the Council in making projections for the medium term.

22. The Council's budgets, particularly its income budgets, can be susceptible to changes in the economy both local and national and have been an area of ongoing concern. However, there are signs of improved income streams especially in the commercial income from the Council’s investment properties albeit this is to some extent being offset by reduced car parking income. Good financial management across the Council’s budget continues and has ensured that the overall budget has remained, and is projected to remain under control

despite the significant funding reductions imposed and savings achieved to date. Updates are reported to Cabinet on a quarterly basis throughout each financial year to ensure that the Cabinet is fully engaged with the financial management of the Council. In view of the economic climate, and to ensure that the Council's budgets are set at realistic levels, the MTFS addresses this problem by being realistic in its forecasts of additional income achievable in future years with increases restricted to areas where there is a strong possibility of achieving the income targets. Any proposed increases to fees and charges for 2019/20 are shown in the General Fund Budget report elsewhere on the Cabinet agenda.

Reserves

23. A key aspect to the management of risk and service transformation or transition is to establish appropriate and effective reserves to help the Council work through funding changes in a planned way. A good example of this is the Council's decision to create the Discretionary Services Fund (DSF) which is being used to help the Council through a period of transition in the delivery of specific discretionary services. It was anticipated that this fund would be used to draw down resources to support services as they went through transition periods, with new delivery models embedding and new funding sources outside of direct Council support being identified and accessed.

24. Some of the services supported by the Reserve have managed to reduce their reliance on Council support and are proving to be very successful. However, as with all transitional arrangements, some of the services are more specialised in terms of the market in to which they must look for alternative providers and delivery models. As a result of the market testing that has been undertaken and the importance of the services provided to the Council and the local community the proposals contained within the MTFP continue to plan for a return of the Playhouse, Pets Corner and the remaining aspects of the Community Safety Team to core funding thus removing their reliance on the DSF for their ongoing financial support.

25. As a result of excellent financial management which has been demonstrated through the outturn reporting mechanisms over recent years, the Council is in a position where its General Reserve is significantly in excess of the recommended level set by the Councils Section 151 Officer. The results of the excellent financial management in recent years has enable one off projects such as the Environmental Project to be funded or for money to be set aside to support future developments such as the investment in the Council's paddling pool facilities. Moving forward in to 2020/21 and beyond there remains a high degree of uncertainty regarding the new funding mechanism for local government and for this reason it is intended that the General Fund will remain at or around £5.2 million to provide sufficient scope to utilise the reserve during the transitional phase of the new system should the funding it delivers be significantly worse than the funding currently provided.

26. Further details of the reserve's movements are set out in paragraphs 24 to 27 and the Appendix E to of the General Fund Budget report, which features elsewhere in the Cabinet's agenda.

27. As part the revision of the MTFP and in light of changes introduced through the Localism Act 2011 this report reaffirms the commitment to:

a) The on-going receipt of New Homes Bonus payments from the Government with planned allocations being applied to the DSF in 2019/20 and future years should they continue under the new funding arrangements.

b) The General Fund Reserve minimum balance being maintained at £2.5 million to enable the Council to manage future short term volatility in resources. Although this is the recommended minimum working balance for the General Fund, it is recommended that the balance operates above this enabling the Council to operate flexibly and manage its risks without contravening the minimum level, especially during the period of major change proposed in the local government finance mechanisms as referred to elsewhere in this report.

28. In moving forward, Cabinet should be aware of the considerable potential pressures on the uncommitted level of reserves as follows:

a) The possible exposure to fluctuations in Council Tax income as a result of the introduction of the LCTSS. It is likely that there will be increased deficits arising on the Collection Fund if the additional sums billed to those in most need prove difficult to collect.

b) The need to review the reserve in order to counter the risk of not being able to accurately predict Housing Benefit subsidy due to the complexity of calculations and the impact of small variations in accuracy and collection rates on the subsidy receivable. Variations can also potentially occur each year between the returns the Council must submit and the audit of those returns.

c) The ongoing risks associated with the new grant mechanisms and the volatility which could be experienced in core funding as a result. Although the potential inclusion within the Essex business rates pool will reduce the levy rate paid there is a risk to all councils in that pool should there be a downturn in business rates collected. The pool must bear the costs of councils within in it falling below their baseline funding level. With the ongoing uncertainties of the Brexit process there is a potential risk that there could be adverse economic impacts.

d) The need to work above a reasonable buffer between the minimum recommended level and the actual level of reserves so that the Council is able to work 'comfortably' above the minimum level. Given the challenges presented by the Local Government Finance Settlement and the changes that have been outlined this may prove to be very difficult in future years.

e) The need to be able to finance one-off expenditure from reserves should the need arise.

f) The increased risks associated with the Council's treasury management activities and the changes to 'bail in' arrangements introduced by the Government that would expose the Council to higher risks that previously experienced.

29. The Cabinet's attention is also drawn to the risks identified in section 10 of the MTFS, as well as the Council's strategic risks as previously reported to the Audit and Standards Committee. Such risks and the impact of those risks on the MTFS will need to be closely monitored during the year.

Capital

30. A five year projection of capital expenditure and capital financing is set out at Appendix C. The funding projections reflect a prudent assessment of asset sales which will help support the programme and help meet the repayment of internal borrowing which has been undertaken in anticipation of receipts. Accumulated internal borrowing is forecast to stand at £18.2 million by the end of 2019/20 and whilst asset sales are forecast to continue during 2019/20 they will not be sufficient to continue to support the Non Housing Capital Programme. As reported in the previous MTFS, the Council's MTFP includes a revenue provision sufficient to fund external borrowing of £2 million per annum. The Non Housing Capital Programme continues to be developed within the available funding envelope.

31. The Housing Capital Programme had been developed in light of the increased funding and flexibilities offered as a result of the introduction of the self-financing model in 2013. As previously reported new directions from the Government have impacted upon this mainly resulting from the imposition of the annual one percent reduction across the four financial years 2016/17 to 2019/20. The implications of this and other changes announced in the Government's Summer Budget have been fully detailed in the HRA Business Plan elsewhere on the Cabinet agenda. The Housing Capital Programme has seen a significant impact as a result of the Government's proposals, over the MTFS planning period and beyond.

Conclusions

32. The proposed MTFS provides a reasoned and prudent basis for financial planning and management, creating the context for the delivery of the Corporate Plan and for the formulation of the annual budgets.

33. The MTFS will continue to be reviewed at least annually during the budget setting process.

IMPLICATIONS

Place (Includes Sustainability)
As contained within the report.
Author: Andrew Bramidge, Project Director – Enterprise Zone and Interim Head of Planning

Finance (Includes ICT)
The MTFS is a key component in the efficient and effective management of the Council's financial resources. Financial implications are contained within the report.
Author: Simon Freeman, Head of Finance and Deputy to the Managing Director

Housing
None specific. Housing finance changes are covered fully in the report Housing Revenue Account Budget and Housing Revenue Account Business Plan elsewhere on the Cabinet Agenda.
Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)
None specific.
Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)
The General Fund Revenue Budget 2019/20 report elsewhere on the Cabinet agenda details the main human resource implications associated with the proposed Council budget. Subsequent years will be addressed in a similar way at the time.
Author: Simon Hill, Head of Governance

Appendices

Appendix A – Changes to the MTFS assumptions
Appendix B – Harlow Council's Medium Term Financial Strategy 2019/20 to 2021/22
Appendix C – Capital Programme Medium Term Financial Plan (MTFP) 2019/20 – 2021/22
Appendix D – Housing Revenue Account Medium Term Financial Plan (MTFP) 2019/20 – 2021/22
Appendix E – General Fund Medium Term Financial Plan (MTFP) 2019/20 – 2021/22

Background Papers

None.

Glossary of terms/abbreviations used

BRR – Business Rates Retention
CSR – Comprehensive Spending Review carried out by the Government in relation to the local government funding arrangements.
DSF – Discretionary Services Fund.

HRA – Housing Revenue Account.
LDF – (Planning) Local Development Framework.
LCTSS – Local Council Tax Support Scheme.
MTFP – Medium Term Financial Plan is the General Fund budget projections over the 5 year period of the MTFS)
MHCLG – Ministry for Housing, Communities and Local Government
MTFS – Medium Term Financial Strategy is the full financial plan across five years that considers the General Fund, HRA and Capital budgets
MRP – Minimum Revenue Provision.
RDEL – Resource Departmental Expenditure Limits.
RPIX – Retail Price Index excluding mortgage interest payments.
RSG – Revenue Support Grant.
SFA – Settlement Funding Assessment.