REPORT TO: CABINET

DATE: 29 JANUARY 2015

TITLE: MEDIUM TERM FINANCIAL STRATEGY 2015/16 – 2019/20

PORTFOLIO HOLDER: COUNCILLOR MIKE DANVERS

LEAD OFFICERS: CORPORATE MANAGEMENT TEAM (01279) 446004

SIMON FREEMAN, HEAD OF FINANCE (01279) 446228

This is a Key Decision
It is on the Forward Plan as Decision Number I002673
This decision is not subject to Call-in procedures for the following reasons:-
The decision is a recommendation to Full Council.
This decision will affect no Ward specifically.

RECOMMENDED that Cabinet recommends to Full Council:

A That the Medium Term Financial Strategy for 2015/16 to 2019/20 is adopted.

B That the proposals in relation to reserves as set out in this report at paragraphs 24 to 30 and contained within Section 5 of the Medium Term Financial Strategy be approved.

C That the planned increases in Council Tax as set out in the Medium Term Financial Plan be approved.

REASON FOR DECISION

A To enable Cabinet to consider the current factors influencing the five year Medium Term Financial Plan and agree the financial strategy for the period 2015/16 to 2019/20 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 five years. The revision of the MTFS has been particularly difficult given the on-going uncertainties relating to the economy, the Governments continued
austerity measures and key changes to local government funding. The full impact of these changes on the Council, its services and its funding during the period of this MTFS remains uncertain.

2. Proposals by the Government which impact upon the MTFS include:

   I. The Government’s austerity plans, which have already had a major impact on Councils funding. This looks set to continue for the remainder of the current spending review period.

   II. Welfare reform and the Universal Credit proposals expected to commence during the period covered by the MTFS.

   One of the main factors that create difficulty in the financial planning supporting the MTFS is the volume of change and funding reductions which have impacted on Councils at the same time.

3. There are continuing uncertainties which continue to influence the national and local economic situation as a result of the global economic situation. This has been a specific concern during the period of development of the MTFS and the Budget especially in relation to the proposed changes to the formula grant system and the impacts on national funding control totals set by the Government. The economic conditions locally and regionally are also important in terms of the predicted business rates forecasts and the baseline funding level set by the Government in 2013.

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:

   a) More and better housing.
   b) Regeneration and a thriving economy.
   c) Wellbeing and Social Inclusion.
   d) A clean and green environment.
   e) Successful children and young people.

   **Proposed amendments to the previously approved MTFS (February 2014)**

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 18 December 2014.
6. Proposed key amendments to the Strategy are set out below:

a) The planning period covered by the MTFS is rolled forward by one year, from the period 2014/15 to 2018/19 to the period 2015/16 to 2019/20.

b) Internal borrowing continues to be used to fund the Non-Housing Capital Programme in the short term, pending the realisation of planned asset sales. The MTFS reflects that this borrowing will be repaid as soon as receipts from asset disposals can be realised. It is anticipated that from 2015/16 external borrowing will be required to deliver a Non-Housing Programme of up to £2m per annum and associated borrowing costs have been included in the MTFS appropriately.

c) Changes are made to the reserves as set out in paragraphs 24 – 30.

7. The resulting General Fund Medium Term Financial Plan (MTFP) (shown at Appendix E) shows that there remains a significant funding shortfall over the four year period 2016/17 to 2019/20. If the Council is to set a sustainable and balanced budget allowing for a 1.5% annual increase in Council Tax levels the following savings will need to be identified and delivered:

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-17</td>
<td>£925,000</td>
</tr>
<tr>
<td>2017-18</td>
<td>£1,066,000</td>
</tr>
<tr>
<td>2018-19</td>
<td>£853,000</td>
</tr>
<tr>
<td>2019-20</td>
<td>£632,000</td>
</tr>
</tbody>
</table>

It should be noted that the projected budget gaps above are 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 level of the projected savings to be made it is important to appreciate the savings already delivered by the Council in recent years. The following table summarises the savings over the period 2005/06 to 2014/15.
<table>
<thead>
<tr>
<th></th>
<th>2005/06 to 2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Savings</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Cumulative Savings</td>
<td>12,999</td>
<td>15,088</td>
<td>16,994</td>
<td>18,496</td>
<td>20,030</td>
</tr>
</tbody>
</table>

9. The level of savings delivered over this period total more than the annual net operating General Fund Budget for the Council and the delivery of savings has required innovative solutions in order to protect services to the local community wherever possible.

10. 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 Revenue Support Grant (RSG) element of the Council's Settlement Funding Assessment (SFA), the protection of services cannot be guaranteed in future years. Achieving future savings equivalent to the levels identified in paragraph 7 will be extremely difficult to deliver without reducing services and increasing the Council's exposure to risk.

11. As detailed later in the report and also in the General Fund Budget Report elsewhere on the Cabinet agenda, there has been scope as a result of windfall income to help increase the level of funding held in the Discretionary Services Fund to enable longer funding guarantees to be given to those services being removed from the base budget as part of the Council's future budget plans. This guaranteed funding would not have been possible had those services remained within the Council's core base budget. However work will need to be carried out during 2015/16 to focus on the longer term plans for those services and to begin to consider alternative delivery vehicles if they are to be sustained without on-going Council support beyond 2018/19.

12. **Council Tax Levels.**

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 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.
i. The Council Tax Band D amount proposed in the 2015/16 Budget represents an increase in the district element of 1.5% when compared with 2014/15 in line with forecasts for inflation over the planning period.

ii. 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 2015/16 will be 2.0% before a requirement to hold a local referendum would be triggered. The Council will not be proposing an excessive increase under current guidelines.

CURRENT ISSUES INFLUENCING THE MTFS

The Comprehensive Spending Review.

13. The Government’s Comprehensive Spending Review 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>
<thead>
<tr>
<th>Grant Reduction</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI</td>
<td>1.8</td>
<td>1.2</td>
<td>1.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RPI</td>
<td>2.5</td>
<td>2.3</td>
<td>2.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RPIX</td>
<td>2.6</td>
<td>2.3</td>
<td>2.4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The draft settlement released on 18 December 2014 confirms that the Government is using the retained Revenue Support Grant (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 Council’s under the new Business Rates Retention Scheme. As such a medium a priority is to ensure that sustainable budgets can be delivered in future years.

14. The proposals contained within the MTFS and the General Fund Revenue Budget 2015/16 paper elsewhere on the Cabinet agenda will be sufficient, if agreed, to meet the budget gap in 2015/16 created mainly as a result of the funding reduction in SFA announced in the draft Local Government Finance
Settlement.

**Business Rate Retention.**

15. 2015/16 will be the third year of operation of the new Business Rate Retention Scheme (BRR) which now and increasingly will feature as the core source of direct Government funding within SFA. The system 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 funding arrangements.

16. The final Scheme has been far more complex than had been envisaged at the outset of the funding review. Not only has it become more complex but the Government also transferred increased risks to Councils and introduced a redistribution of significant proportions (50%) of locally collected business rates directly back to Central Government.

17. The new system has retained the Revenue Support Grant (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 that can be used by the Government to influence Councils’ funding at a national level. Funding received through the RSG element of SFA has been projected to reduce to almost nil during the period of the MTFS.

**Business Rates Pooling**

18. A business rates pool is planned to be established in 2015/16 by a number of Essex Councils. However, with the uncertainty regarding the level of business rates collectable in Harlow in 2015/16 as a result of forecasting to be within the safety net mechanism during 2014/15, it has not been possible for the Council to take part in this initiative next year. If the economy and occupancy levels improve during 2015/16 then it would be possible for the Council to join the pool in 2016/17. The advantages of the pooling arrangement have previously been set out in a report to Cabinet in September 2013, but essentially lead to a lower levy being paid to the Government on any future business rates growth.

**Welfare Reform**

19. As reported during 2012/13, 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. The Council has worked 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 has been minimised as far as possible.

20 As part of the change the Government reduced funding previously provided to support the national scheme by 10% and protected pension aged claimants from this reduction. For Harlow this involved the difficult decision to pass the funding reduction on to those claimants of working age and has resulted in up to £1.35m of benefit reductions locally to enable the funding reduction to be cost neutral to the Council’s budget and the major precepting bodies including Essex County Council, Essex Fire Authority and the Essex Police and Crime Commissioner.

21. In recognition of the difficulties these changes have made to some of the most vulnerable within the local community, a hardship fund was established and fully utilised in 2013/14 to help support those most in need. Under a funding agreement with Essex County Council this funding will continue in 2015/16. The LCTS Scheme for 2015/16 will remain unchanged as agreed by Council at its meeting on 18 December 2014. Despite uncertainty at the start of the new scheme the collection rates for Council Tax during 2014/15 have been better than originally anticipated, although slightly lower that during 2013/14.

The Economic Conditions

22. Although the economy is now showing signs of improvement, the economic climate and recession continue to impact upon the Council. This creates risk and uncertainty for the Council in making projections for the medium term.

23. The Council's budgets, particularly its income budgets have been an area of on-going concern although some areas such as car parking have performing better than at the same stage in previous years. Good financial management across other budget areas has ensured that the overall budget has remained and is projected to remain under control. Updates have been reported to Cabinet on a quarterly basis throughout the year with a further report due in March 2015. This future uncertainty, however, presents a real risk in future years while the economic conditions continue. 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. Some charges are proposed to be increased for 2015/16 as shown in the General Fund Budget report elsewhere on the Cabinet agenda.

Reserves

24. As mentioned earlier in the report, the Council established an earmarked
reserve in 2011/12 which is now called the Discretionary Services Fund 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 the transition over the 2012/13 – 2014/15 period as new delivery models became embedded and the services began to access new and alternative funding sources.

25. Some of the transferred services have managed to reduce their reliance on Council support, but in a report to Cabinet in November 2014 it was agreed that support would be extended to 2017/18 for some services to enable further external income and funding to be secured over a longer period.

26. As part of the budget proposals contained in the 2015/16 General Fund Budget report, further discretionary services will be transferred to this Fund from next April and will continue to be delivered providing that the fund has sufficient income streams to support this approach. With such significant savings to be achieved this reserve is now playing an increasingly important role in the future financial plans of the Council and in preventing, at least in the short to medium term, services from being reduced or withdrawn completely. Based upon current projections the reserve will be able to sustain these services with greater certainty in the medium term, including services such as the Playhouse, through the application of windfall income and the New Homes Bonus payments received from the Government to the reserve during 2014/15 and 2015/16. The reserve will have a finite life given the demands placed upon it and it will therefore not guarantee the on-going funding of transferred services beyond 2018/19. The reserve does allow the Council more time to consider viable options for the delivery of the services currently funded from it.

27. Further details of the reserve’s movements are set out in paragraphs 16 to 22 and associated appendix of the General Fund Budget Report, which features elsewhere in the Cabinet’s agenda.

28. As part the revision of the MTFP and in light of changes introduced through the Localism Act 2011 the following proposals are also now made:

i. Subject to the on-going receipt of New Homes Bonus payments from the Government, the existing planned allocations are applied to the Discretionary Services Fund in 2015/16 through to 2018/19.

ii. Any additional New Homes Bonus payments over and above the amount already planned to be transferred to the DSF will be applied to the Regeneration and Enterprise Reserve established to help create economic growth in the Town and to regenerate the town centre. The commercial, non-housing assets stock condition survey will also be funded from this reserve.
iii. The General Fund Reserve minimum balance continues to be maintained at £2.5m 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 comfortably operate flexibly and manage its risks without contravening the minimum level.

iv. That any further windfall income received during 2015/16 will be considered alongside competing financial priorities at the time. Decisions on the use of such windfall income will be reported during the course of the year as part of the regular quarterly Finance and Performance updates to Cabinet.

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

i. The possible exposure to fluctuations in Council Tax income as a result of the introduction of the Local Council Tax Support Scheme. 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. As the scheme moves in to its third year there will be greater availability of data on which to assess the likely longer term impacts of the scheme on Council income.

ii. The need to review the reserve 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.

iii. The on-going risks associated with the transition to the new grant mechanisms and the volatility which could be experienced in core funding as a result. A reduction of up to £204,000 in business rates will be borne locally before any support is received under the Safety Net arrangements from the Government in line with the provisions contained the draft Local Government Finance Settlement.

iv. 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 this may prove to be very difficult in future years.

v. The need to be able to finance one-off expenditure from reserves
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**

**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: **Graham Branchett, Chief Operating Officer**

**Governance (includes HR)**
The General Fund Revenue Budget 2014/15 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: **Brian Keane, Interim Head of Governance**

**Appendices**
*Appendices may be circulated separately to main Cabinet agenda pack.*

Appendix A – Changes to the MTFS assumptions.
Appendix B – Harlow Council’s Medium Term Financial Strategy 2015/16 to 2019/20
Appendix C – Capital Programme Medium Term Financial Plan (MTFP) 2015/16 – 2019/20
Appendix D – Housing Revenue Account Medium Term Financial Plan (MTFP) 2015/16 – 2019/20

**Background Papers:**
None

**Glossary of terms/abbreviations used**

**BRR** – Business Rates Retention
**CSR** – Comprehensive Spending Review carried out by central 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.
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.

RPIX – Retail Price Index excluding mortgage interest payments.
RSG – Revenue Support Grant.
SFA – Settlement Funding assessment.