APPENDIX 1

REPORT TO: **CABINET OVERVIEW WORKING GROUP**

DATE: **26 NOVEMBER 2015**

TITLE: **MEDIUM TERM FINANCIAL STRATEGY**

LEAD OFFICER: **SIMON FREEMAN, HEAD OF FINANCE (01279) 446245**

RECOMMENDED that:

A The Working Group considers the report and the underpinning principles that support the MTFS.

B That the Working Group refers any specific issues identified as a result of the review to Cabinet for consideration.

BACKGROUND

1 This report provides an annual review of the Council's Medium Term Financial Strategy and examines the key financial assumptions which underpin it. Key assumptions include Government Funding, Pay, Inflation and Income. In order to assist the Working Group in carrying out this review, Officers have compiled documentation which identifies the key economic drivers and other government established parameters which have been considered in establishing the proposals for the MTFS update for the period 2016/17 – 2020/21.

2 The Medium Term Financial Strategy (MTFS) provides the parameters for the Council's revenue spending and capital investment plans over a rolling 5-year period. The current MTFS covering the period 2015/16 – 2019/20, was approved by the Council in February 2015 and is attached at Appendix 1 to this report.

3 The current MTFS was prepared against the ongoing background of uncertainty in global and economic factors affecting the Council's finances and whilst there are continuing signs of economic recovery the climate of austerity for local government looks likely to continue until 2020 following the Chancellors summer budget announcements in July.

4 The Government published the final Local Government Finance Settlement for 2015/16 in February 2015. Unfortunately, unlike the announcement in

2014 it only included one year figures and gave no indication as to the possible 2016/17 settlement for Harlow and at the time of writing this report there are no further details available. Announcements relating to 2016/17 and future years are not expected to be released until mid-December after the Autumn Statement has been made by the Chancellor on 25 November 2015. Final figures are likely to be published in late January or early February 2016 as the Council is setting its 2016/17 budget.

5 The MTFS continues to be developed and the figures contained in the report are subject to change. An update based on the assumptions contained in this paper and the details contained within the Autumn Statement and any subsequent information flowing from the Government will be presented to the Cabinet in January 2016 as part of the 2016/17 budget setting process.

6 The MTFS will continue to be developed to support, and be driven by, the priorities contained in the Corporate Plan approved by the Council whilst taking account of the impacts of Government decisions and other factors as they become known.

GENERAL FUND BUDGET PARAMETERS

7 The MTFS approved in February included a 5-year financial forecast for the General Fund Budget. The proposed key factors affecting the MTFS have been revised and the proposals are contained at Appendix 2 for consideration by the Working Group.

KEY ISSUES

General Fund

8 The system of Comprehensive Spending Reviews (CSR) currently operated by the Government determine Government department spending over set time periods. The Current Government announced its first CSR in 2010 and it covered the financial years 2011/12 to 2014/15. In June 2013 the chancellor announced his second CSR but this only covered the 2015/16 financial year and therefore leaves significant uncertainty for local government for future years. The limitations of the announcement make medium term planning extremely difficult and currently without the detail to support the announcements the MTFS is currently modelled on the assumption of continuing austerity measures and an annual 10% cut in central government funding.

9 The local government funding arrangements changed considerably in 2013/14 and now the whole formula funding arrangements are far more significantly linked to local Business Rates with Revenue Support Grant making up only a small and ever decreasing share of the grant received each year. With the level of reductions forecast it is anticipated that over the MTFS period 2016/17 - 2020/21 Harlow will receive minimal amounts or no RSG at all by 2020/21. The significant level of savings already achieved by the Council in response to funding pressures is illustrated below –

	2005/06 to 2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	£’000	£’000	£’000	£’000	£’000	£’000
Annual Savings		2,107	1,906	1,503	1,534	1,264
Cumulative Savings	12,981	15,088	16,994	18,497	20,031	21,295

The new funding arrangements introduced in 2013 mean that local authorities have a greater reliance on local business. Recent Government announcements over the summer have confirmed the MTFS projections that RSG will be phased out in preference for higher levels of local retention of business rates. Until further details are released in relation to this proposal it is difficult to assess what the local impact will be. As with a number of funding changes that have taken place over the past two years generally the changes bring a higher level of risk to the Council and this will need to be carefully considered during any consultation process and in forecasting the future funding streams contained within the MTFS and the level of working balances held by the General Fund and Housing Revenue Account.

10 In addition to the Grant settlement issues already highlighted the Council is facing uncertainty over the Governments ongoing Welfare Reform programme. Recent announcements intended to reduce the welfare bill include rent reductions in the HRA and across other housing sectors which are detailed further later in this report.

11 Following the introduction of the Local Council Tax Support Scheme in 2013/14, the General fund budget and the forecast income to support services it provides is now very much more exposed to local changes in the economy. If unemployment rises then there is likely to be a higher demand placed upon the LCTS scheme which will impact on both the Council and the precepting bodies.

12 Housing Revenue Account

The Housing Revenue Account (HRA) is now in its third financial year of operation under the new Self Financing arrangements. The revised business plan was agreed in February 2015. The move to the new arrangements brought the freedom to consider local issues for local residents and to reflect these within the business plan itself.

However, in the summer Budget announcements made on 8 July 2015, the Chancellor of the Exchequer introduced a number new initiatives which the Council anticipates will have both short and long term impacts on its HRA Business Plan. Whilst no detail has been forthcoming as yet, the potential implications of these changes are being evaluated and the HRA Business Plan updated to reflect the possible impacts.

13 Legislation to reduce tenants' rents by 1% per annum over the next four years (2016/17 to 2019/20) is currently going through Parliament. This will have a major impact on the Council's current HRA Business Plan, which had assumed annual rent increases equivalent to CPI+1% in line with government guidance. By 2020, this measure will reduce average rents for households in the social housing sector by around 12% compared to current forecasts. There will also be the ongoing effect of lower rents throughout the remainder of the 30-year Business Plan. It is the Government's expectation that the required rent reductions will be met by efficiencies.

Other anticipated legislative changes are expected to include include the following:

a) Families earning over £30,000 outside London will be required to pay the market rent, not social rent, with the income collected being paid by Councils direct to the Treasury.
b) Income thresholds on Tax Credits to working families will be reduced.
c) The cap on benefits to out of work families will be reduced from £26,000 to £20,000.
d) Extending to tenants of Housing Associations the Right to Buy, through the sale of higher value council owned homes.

14 Current Forecasted Implications

Setting rents at the new level between 2016/17 and 2019/20 will reduce significantly the resources available to deliver the HRA Business Plan's short, medium and long term objectives, as outlined in the HRA Medium Term Financial Strategy (MTFS).

Councils have produced their HRA Business Plans on the assumption of a sustainable income stream linked to the debt settlement. As a consequence of the proposed legislation, lower rents will result in a forecast loss of income of £12.8m by 31 March 2020. With a hitherto projected working balance of £10.6m the loss of income will mean that the HRA would be overdrawn (with an illegal deficit) by £2.2m. Longer term there will be a shortfall of at least £284m by 31 March 2045. Projections also indicate there are insufficient balances to fulfil the current asset management plans in the short-term due to the forecasted reduction in revenue and its contribution to the Housing Capital Programme.

Efficiencies of at least £5.1m are necessary by 31 March 2020 to achieve a minimum working balance as outlined in the table below.

Projected HRA Balance, 31 March 2020	
	£m
Forecast balance per approved HRA Business Plan, 2014-2044	11.2
Adjustments to HRA Business Plan since February 2015	(-)1.0
	10.2
Rent Reductions 2016/17 to 2019/20 inclusive	(-)12.8
Other adjustments – including. local govt. salaries at 1% p.a.	0.4
Forecast balance	**(-)2.2**
Required Minimum Working Balance at 31 March 2020	2.9
Difference – budget gap (or capital shortfall) to address	**5.1**

Significantly, based on initial projections, the Council will not be able to repay the £209m borrowing it took out in 2012 to HM Treasury and fund a further programme of council house building following completion of the current Pathfinder Scheme. Cabinet received an update report in October which revised and changed the key principles on which the HRA Business Plan is based and for the Working Groups reference this is included as Appendix 3 to this report.

15 Capital Programme.

The capital programme is influenced heavily by the change to HRA self financing. The programme is being driven by the need to invest in the housing stock (based on stock condition surveys) to ensure it meets decency standards. Significant work continued during 2014/15 to deliver the investment requirements for decency to be achieved. It will also ensure that the Council is able to manage significant increases in capital expenditure over the next four to five years.

16 The current approved programme is included at Appendix 1 as part of the MTFS. Given the uncertainty surrounding the changes to the HRA and the Governments announcements detailed earlier in the report, the Capital programme will require review and amendment if the £5.1m of savings is to be achieved. Officers are working on a revised investment programme which will slow and reduce the investment in the housing stock in order to reduce the requirement for revenue contributions to the capital programme from the HRA. This will be updated for known changes and any re-profiled expenditure as the current year progresses.

The Non Housing Capital Programme is also subject to review and is currently funded by either sales of assets or borrowing. The General Fund MTFS contains sufficient funding to enable a £2 million per year capital programme to be delivered and again officers are currently working to ensure that this level of funding is sufficient to meet the investment requirements of the service areas.

Treasury Management Strategy

17 The Treasury Management Strategy will be approved at the same time as the MTFS, General Fund Budget, HRA estimates and rent levels and the Capital Programme. The Strategy supports the financial activities by setting out the investment and borrowing policy and it ensures that the Councils cash holdings are safeguarded as far as possible from loss in the current economic climate.

18 The strategy also contains the Prudential indicators required under the Prudential Code which set limits and boundaries for the capital expenditure of the Council. The Capital programme and borrowing activity must be constrained within the limits set by the indicators. It is intended that these limits ensure the Council operates within financial boundaries which it can afford in the context of its wider financial strategies.

19 The current strategy is attached to the report at Appendix 4.

Conclusions

20 The range of financial strategies and the budgets they support are very much dependant on economic activity, Government funding policy funding and local conditions.

21 The report has highlighted how they interrelate and the underpinning principles on which they are based. These assumptions and principles are reviewed regularly to ensure that the strategies remain relevant and affordable in the wider context of the economy.

IMPLICATIONS

Place (includes Sustainability)
None Specific
Author: **Graeme Bloomer, Head of Place**

Finance (includes ICT)
The medium-term financial implications of Government funding, economic factors, budget and service plans are contained within the report and accompanying appendices, which provide an update to the MTFS approved by Council in February 2015
Author: **Simon Freeman, Head of Finance**

Housing
None specific other than contained within the report
Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)
None Specific
Author: **Jane Greer, Head of Community Wellbeing**
None Specific

Governance (includes HR)
None Specific
Author: **Brian Keane, Head of Governance**