REPORT TO:	**CABINET**
DATE:	**28 JANUARY 2016**
TITLE:	**MEDIUM TERM FINANCIAL STRATEGY 2016/17 – 2020/21**
PORTFOLIO HOLDERS:	**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 I004239
This decision is not subject to Call-in procedures as it 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 2016/17 to 2020/21 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 8 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 2016/17 to 2020/21 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 again been difficult given the Government's Summer Budget announcements in July and the 2015 Spending Review announcements contained within the Autumn Statement in November. Both announcements were significant in terms of the

confirmation that austerity measures will continue and that fundamental changes are planned for both housing finance and the wider local government funding being mechanisms over the next four to five years. At the time of writing this report the full impact of these changes on the Council, its services and its funding during the period of this MTFS remains uncertain in the absence of any specific details being released by the Government.

2. There are a number of key proposals by the Government which will impact upon the MTFS either in the early years of the current MTFS period or the later part and include: -

   (a) The Government's continued austerity plans, which have already had a major impact on Councils funding, and look likely to continue for the remainder of the current spending review period.

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

   (c) Rent reductions of 1% in each of the next four years to be imposed on local authorities and social landlords.

   (d) Right to Buy extension to housing associations but financed by Councils' RTB receipts.

   (e) The future plans to phase out one element of the Councils' core funding, Revenue Support Grant (RSG)

   (f) The future retention of 100% of Business Rates subject to conditions being applied and the transfer of additional responsibilities.

   One of the main factors which 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. The lack of long term financial settlements is also a difficulty when trying to plan for the medium term.

3. There are 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 General Fund 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 as follows:

   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 17 December 2015.

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 2015/16 to 2019/20 to the period 2016/17 to 2020/21.

   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 as the receipts from asset disposals reduce external borrowing will be required to deliver a Non-Housing Capital Programme. Pending the outcome of the full Non Housing stock condition survey provision has been included within the MTFS to enable a programme of up to £2m per annum to be funded.

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

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 2017/18 to 2020/21. If the Council is to set a sustainable and balanced budget allowing for at least a 1.5% annual increase in Council Tax levels the following savings will need to be identified and delivered :-

Year	Budget Gap £'000
2017-18	£1,425
2018-19	£886
2019-20	£446
2020-21	£382

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 2015/16.

	2005/06 to 2011/12	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000	£'000
Annual Savings		1,906	1,502	1,534	1,264
Cumulative Savings	15,088	16,994	18,496	20,030	21,294

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 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 above 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 Reserve 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 as at November 2015 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.

Index	Apr 15	Sep 15	2016
CPI	-0.1	-0.1	1.6
RPI	0.9	0.8	2.5
RPIX	0.9	0.9	2.5

Source – HM Treasury

i. The Council Tax Band D amount proposed in the 2016/17 Budget represents an increase in the district element of 1.5% when compared with 2015/16 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 2016/17 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 -

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Grant Reduction	15.2%	11.8%	7.68%	14.16%	16.6%	14.2%

The draft settlement released on 17 December 2015 confirms that the Government continues to use 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 Business Rates Retention 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. Proposals indicated in the Autumn Statement suggest that a system of "tariffs" and "Top-Ups" may be introduced if the revised funding formula generates a situation where an authority moves in to a negative RSG position but there are currently no details available and are unlikely to be released until formal consultation is opened on the proposals to retain 100% business rates in the future.

14. The proposals contained within the MTFS and the General Fund Revenue Budget 2016/17 paper elsewhere on the Cabinet agenda will be sufficient if agreed to meet the budget gap in 2016/17 created mainly as a result of the funding reduction in SFA announced in the draft Local Government Finance Settlement.

Business Rate Retention.

15. 2016/17 will be the fourth year of operation of the Business Rate Retention Scheme (BRR) which will increasingly feature as the core source of direct Government funding within SFA. Within the Autumn Statement made on 25 November 2015, the Chancellor set out the Government's intention to remove RSG all together and to focus Council funding solely on BRR. The BRR 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 new funding mechanism system currently retains 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 which can be used by the Government to influence Councils' funding at a national level. The forward forecast of funding received through the RSG element of SFA has been projected to reduce to almost nil during the period of the MTFS and given the Chancellor's announcements these assumptions have been shown to be correct.

17. 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%) of locally collected business rates directly back to Central Government.

18. It is hoped that over the period 2016/17 to 2019/20 the Governments

consultation on the changes it proposes to the BRR system linked to the phasing out of RSG and the eventual design of the new proposals for local government funding will become much more simple and transparent. Details of the Governments proposals are not currently anticipated until sometime during the early part of 2016 which will be after the Council has set its 2016/17 budget. However, it is expected that the redesign of the BRR and SFA arrangements will not impact until 2020/21.

Business Rates Pooling

18. A business rates pool has operated within Essex during 2015 but due to uncertainties regarding Harlow's position in relation to business rates collection and potential claims against the government safety net the Council did not join the pool as detailed in the 2015/16 budget papers presented to Cabinet in January 2015. The Autumn Statement made reference to pooling in so much as it indicated that there would be the ability for established pooling arrangements to continue in to 2016/17. However, if pool membership was to change it is understood that any new pooling proposals may not be accepted for 2016/17. On this basis and given that it already looks possible that there will be changes within the Essex pool, Harlow has not made any request to join the pool for the 2016/17 financial year.

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 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 to enable the scheme to be delivered within the funding made available to the Council and the major precepting bodies including Essex County Council, Essex Fire Authority and the Essex Police and Crime Commissioner.

21. The Council has 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 2016/17. The fund has been fully utilised in each of the years since it was established and is likely to be so again in 2015/16. To provide as much stability as possible to those households impacted by

the introduction of the LCTS, Harlow's scheme will remain largely unchanged again in 2016/17 as agreed by Council at its meeting on 17 December 2015.

The Economic Conditions

22. Although the economy is showing signs of improvement, the fragile economic climate continues 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 during the recession but there are now signs that there are improvements in the income targets set within the existing budget. Good financial management across the Councils budget continues to ensure 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 Councils 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. Some charges are proposed to be increased for 2016/17 as shown in the General fund Budget Report elsewhere on the Cabinet agenda.

Reserves

24. A key aspect to the management of risk and service transformation or transition is to establish appropriate and effective reserves to help the Council to work through funding changes in a planned way. A good example of this is the Council's decision to create the Discretionary Services Fund 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.

25. Some of the services supported by the fund 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. These services continue to look for new options for their ongoing delivery but as a result of decisions to allocate windfall income and New Homes Bonus to the fund there are

currently sufficient resources available within it to support the remaining services until 2018/19.

27. Further details of the reserve's movements are set out in paragraphs 19 to 24 and the associated Appendix E 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 this report reaffirms the commitment to :

    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 2016/17 through to 2019/20 subject to the scheme continuing once the proposed review is carried out by the Government.

    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 as previously agreed by Council on 5 February 2015. The reserve may also be utilised to provide start-up funding to the Local Authority Trading Company during 2016.

    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 especially during the period of major change proposed in the local government finance mechanisms.

    iv. That any further windfall income received during 2016/17 be used to increase the resources available to the Regeneration and Enterprise Reserve should they become available during the financial year to enable longer term regeneration or other projects with potential income generating opportunities to be developed.

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 fourth year work will be undertaken to more closely assess the income levels being achieved and the bad debt provisions held.

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 new grant mechanisms and the volatility which could be experienced in core funding as a result. Any reduction of up to £212,000 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 and the changes that have been outlined this may prove to be very difficult in future years.

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

30. 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

31. 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 £5.1m by the end of 2015/16 and whist asset sales are forecast to continue during 2016/17, it is currently anticipated that this will not generate sufficient receipts 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 £2m per annum. The Non Housing Capital Programme continues to be developed within the available funding envelope.

32. 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. Under new directions from the Government this position has now seen a significant change, mainly resulting from the imposition of a rent reduction across the next four financial years. The implications of this and other changes announced in the Governments Summer Budget have been fully detailed in the HRA Business Plan elsewhere on the Cabinet agenda. The Housing Capital Programme will see a significant impact as a result of the Governments proposals both over the MTFS planning period and beyond. A report has already been presented to the October 2015 Cabinet meeting in order to agree revised guiding principles for the HRA Business Plan in light of the changes announced in July 2015.

Conclusions

33. 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.

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

IMPLICATIONS

Place (includes Sustainability)
Contained within the report
Author: **Graeme Bloomer, Head of Place**

Finance
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: **Jane Greer, Head of Community Wellbeing**

Governance (includes HR)
The General Fund Revenue Budget 2016/17 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, 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 2016/17 to 2020/21

Appendix C – Capital Programme Medium Term Financial Plan (MTFP) 2016/17 – 2020/21

Appendix D – Housing Revenue Account Medium Term Financial Plan (MTFP) 2016/17 – 2020/21

Appendix E – General Fund Medium Term Financial Plan (MTFP) 2016/17 – 2020/21

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.