REPORT TO:	**CABINET**
DATE:	**26 JANUARY 2017**
TITLE:	**MEDIUM TERM FINANCIAL STRATEGY 2017/18 – 2020/21**
PORTFOLIO HOLDERS:	**COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES**
LEAD OFFICERS:	**SIMON FREEMAN, HEAD OF FINANCE (01279) 446228**

This is a Key Decision
It is on the Forward Plan as Decision number I005994
This decision is not subject to Call-in procedures for the following reasons:
The decision stands as 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 2017/18 to 2020/21 is adopted.

B That the proposals in relation to reserves as set out in this report at paragraphs 24 to 25 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 four year Medium Term Financial Plan and agree the financial strategy for the period 2017/18 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 four years. The revision of the MTFS has incorporated the agreed funding under the Government's four year deal through to 2019/20. The Chancellor's Autumn Statement and the draft Local Government Finance Settlement haven't provided much in the way of detail relating to other changes that may still affect councils looking forward into the future years of the planning

period.

2. There are a number of areas 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 and the ongoing restrictions that this approach places upon the overall public sector finance settlements through to 2019/20.

   (b) Welfare reform and the Universal Credit proposals which are currently being rolled out nationally. It is still difficult to predict the costs of running the scheme and the impacts on local residents.

   (c) The rent reductions policy as set out in the HRA Business Plan report.

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

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

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

   One of the main factors which creates difficulty in the financial planning supporting the MTFS is the volume of change and funding reductions which have or will impact Councils at the same time.

3. There are new and ongoing issues which create uncertainties and influence the national and local economic situation. These include the global economic situation, key elections in other European countries in the near future, and the outcome of the EU Referendum in June 2016. Proposed changes to the formula grant system and the impacts on national funding control totals set by the Government will be areas of proposed change that will be watched closely after the approval of the current MTFS. 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.

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 2016)

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 15 December 2016.

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 will not be rolled forward by one year as part of the 2017/18 budget setting process but will cover a four year period instead being 2017/18 to 2020/21.

   b) Changes are made to the reserves as set out in paragraphs 24 – 35 below.

7. The resulting General Fund Medium Term Financial Plan (MTFP) (included as Appendix E to the report) shows that there remains a funding shortfall over the three years from 2018/19 to 2020/21. If the Council is to set a sustainable and balanced budget allowing for at least a 1.99% annual increase in Council Tax levels, the following savings will need to be identified and delivered :-

Year	**Budget Gap £'000**
2018-19	£172
2019-20	£379
2020-21	£110

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 last 10 financial years -

	2007/08 to 2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000
Annual Savings	-	1,502	1,534	1,264	1,527
Cumulative Savings	13,350	14,852	16,386	17,650	19,177

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 as at November 2016 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 16	Sep 16	2017
CPI	0.3	1.0	2.7
RPI	1.3	2.0	3.5

Source – HM Treasury

i. The Council Tax Band D amount proposed in the 2017/18 Budget represents an increase in the district element of 1.99% when compared with 2016/17.

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 2017/18 will be 2.0% or £5.00 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

11. 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%

12. The draft settlement released on 15 December 2016 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 councils 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. 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 2017 this will not create any further financial pressure for the Council.

13. The proposals contained within the MTFS and the General Fund Revenue Budget 2017/18 paper elsewhere on the Cabinet agenda will be sufficient, if agreed, to meet the budget gap in 2017/18 which has been created mainly as a result of the funding reduction in SFA announced in the draft Local Government Finance Settlement.

Business Rate Retention

14. 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 23 November 2016, 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.

15. The new funding mechanism system currently 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. 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. Given the Chancellor's announcements these assumptions have been shown to be correct.

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

17. It is hoped that over the period from 2016/17 to 2019/20 the Government's consultation on the changes it proposes to the BRR system, which is linked to the phasing out of RSG and the eventual design of the new proposals for local government funding, will simplify and make the whole distribution mechanism for local government funding more transparent. It is anticipated that the redesign of the BRR and SFA arrangements will not impact until 2020/21, although speculation exists that suggest the changes may be accelerated by one year in to 2019/20.

Business Rates Pooling

17. A business rates pool has operated within Essex during 2016, 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 2016/17 budget papers presented to Cabinet in January 2016. Ongoing uncertainty and volatility in the business rates income, especially in light of the new rating list effective from April 2017 and the increased likelihood of increased rating appeals has resulted in Harlow opting not to join the Essex Pool again for 2017/18 financial year.

Welfare Reform

18. 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.

19. 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 2017/18. The Fund has been fully utilised in each of the years since it was established and is likely to be so again in 2016/17. To provide as much stability as possible to those households impacted by the introduction of the LCTSS, the Council's scheme will remain largely unchanged again in 2017/18, as agreed by Full Council at its meeting on 15 December 2016.

The Economic Conditions

20. Although the economy has shown 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.

21 The Council's budgets, particularly its income budgets, have been an area of on-going concern during the recession. However, there are now signs that there are improvements in the income targets set within the existing budget. Good financial management across the Council's 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 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. Some charges are proposed to be increased for 2016/17. These are shown in the General Fund Budget report elsewhere on the Cabinet agenda.

Reserves

22. 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 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.

23. 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.

24. 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.

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

    i. The on-going receipt of New Homes Bonus payments from the Government. The existing planned allocations are applied to the Discretionary Services Fund (DSF) in 2017/18 through to 2019/20.

    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.

    iii. 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.

    iv. Any further windfall income received during 2017/18 being 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.

26. 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 into its fifth 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 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.

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. This is 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.

vi. 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.

27. 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

28. 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 £7.4million by the end of 2016/17 and whilst asset sales are forecast to continue during 2017/18 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 £2m per annum. The Non-Housing Capital Programme continues to be developed within the available funding envelope.

29. 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 Government’s 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 Government’s proposals, over the MTFS planning period and beyond. A report has already been presented to the Cabinet meeting in October 2015, in order to agree revised guiding principles for the HRA Business Plan in light of the changes announced in July 2015.

Conclusions

30. 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.

31. 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 – General Fund Budget Parameters 2017/18 – 2021/22

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.