

Medium Term Financial Strategy and Plan

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1. Purpose of the Report

To advise members of the Medium Term Financial Strategy and the current position on the MTFP (Revenue Budgets for 2016/17 to 2020/21).

2. Forward Plan

This report was included on the District Executive Forward Plan with an anticipated Committee date of October 2015.

3. Public Interest

This report outlines SSDC's overall budget strategy and how the Council will manage its finances over the next five years. It also sets out what assumptions are being made and how much is required in savings each year to balance the books.

4. Recommendations

That the District Executive:

- (1) Approve the current Medium Term Financial Strategy.
- (2) Approve that £314,000 in Council Tax Reduction Grant is passported to support Town and Parish Councils' Precepts.
- (3) Approve in principle that South Somerset District Council remains in the Somerset Business Rates Pool for 2016/17 with a final decision delegated to the Assistant Director – Finance and Corporate Services in Consultation with the Leader and Finance Portfolio Holder.
- (4) Note the current position and timetable for the Medium Term Financial Plan.

5. Background

This is the first report outlining the Medium Term Financial Strategy, Capital Strategy and Medium Term Financial Plan for the financial year starting in 2016/17. This report updates members of the current position and the revised strategy for achieving balanced budget over the medium to longer term.

6. Introduction

The Medium Term Financial Strategy (MTFS) outlines how the Medium Term Financial Plan (MTFP) i.e. the budget will be delivered over the medium to long-term. The MTFP at South

Somerset spans three years with a further two years added to show the likely longer-term scenario. The Medium Term Financial Strategy links the resources required to deliver the Council Plan, the Capital Strategy and the Council's other strategies.

7. The Council Plan

The authority approved the Council Plan in February 2012. The Medium Term Financial Strategy, Capital Strategy and Medium Term Financial Plan will need to reflect the revised Corporate Plan in due course.

8. The Current Position

Currently the MTFP shows a projected budget gap for each year of the plan. The figures include all estimates for pay awards, council tax, government grant, and inflation. Therefore the main drive is to find savings within the plan to ensure the on-going financing of the Council Plan and key strategies.

The Chancellor of the Exchequer announced that the Spending Review would be announced on the 25th November 2015. It will be a four-year plan and will set out departmental spending limits across government. The savings target is for £20 billion of savings by the end of 2019/20. The Spending Review will set the amount of grant for local government overall so SSDC will not know what grant is allocated probably until December 2015 once individual grants are calculated.

Some departments have been protected such as the NHS and therefore non-protected departments including local government have been asked to model scenarios of 25% to 40% cuts over the next four years. The Government has set itself five key principles in its decision making:-

- Promoting innovation and greater collaboration in public services;
- Promoting growth and productivity (partially delivered through devolution of power);
- Delivering high-quality public services;
- Promoting choice and competition;
- Driving efficiency and value for money across the public sector.

This report is based on various assumptions pending clarity on the following:-

New Homes Bonus – affirmation of its continuation, split between upper & lower tier, and amount allocated;

Revenue Support Grant – last year SSDC was allocated a provisional settlement, currently we have no indication of grant for 2016/17 and beyond;

NDR – last year SSDC was allocated a provisional base line, currently we only have our internal estimates;

Council Tax – we are currently awaiting referendum limits;

Devolution bids – successful devolution bids will be announced on the 25th November. We have yet to ascertain what impact this will have if any on SSDC finances.

9. Expected Outcomes from the Strategy and Plan

The Council needs to deliver a balanced budget over the term of the plan. A balanced budget means that balances or reserves are not used to meet on-going expenditure commitments. SSDC will look to ensure sound plans are in place to balance the budget over the medium to longer term rather than year to year balancing.

The Council also needs to achieve as much stability as possible for both service delivery and staff in planning the moving of resources (both money and people) to areas of agreed priority.

SSDC also needs to continue the drive to make services as efficient as possible.

In addition the authority will need to continue to add value in procuring goods and services and manage its assets effectively.

10. Capital Strategy

The Capital Strategy allows new receipts to be released for new capital schemes. A further sum of capital receipts will be released to meet needs that deliver the Corporate Plan once the effect on revenue is assessed and can be funded within the Medium Term Financial Plan.

The “Spend to Save” scheme enables projects to come forward at any time which prove to give a return of the same or greater than the loss of interest that could be earned. This allows for individual schemes showing innovation, efficiencies, and income generation to be considered.

Schemes will also be considered utilising “Internal Borrowing” where bids can be made for loans that repay both capital and interest at PWLB rates.

Members approved a process for releasing Infrastructure Funding. This allows for funding outside of the normal annual budget process but all projects must outline the revenue implications when approved and these commitments will be added to the Medium Term Financial Plan.

District Executive has delegated authority to approve the use of up to 5% of capital receipts in any one year (approx. £1.5 million). Approvals beyond this sum must be agreed through full Council.

11. Strategy for New Homes Bonus

A sum equivalent to 80% of the average annual council tax is received in grant for every new home once occupied. This sum is payable for six years with an additional bonus of £350 for every affordable home occupied. The table in paragraph 16 shows a profile of the sums expected.

The agreed strategy for New Homes Bonus is to mainstream it with Revenue Support Grant to maintain services.

To ensure that risk is minimised the amount of NHB being used to fund the MTFP will be outlined each year. In addition it will forward fund the current and next two year's budget giving the authority time to make any cuts necessary in a measured way should NHB funding be withdrawn.

The current strategy for the use of NHB in priority order is as follows:

- Supporting revenue spending to retain services that benefit the community;
- Supporting costs (revenue and capital) of spending on infrastructure before and on the introduction of CIL;
- Supporting capital spending for affordable housing (from the affordable housing element of NHB);
- Supporting business growth for the retention of business rates to stabilise and increase business rate income.

Currently NHB is being fully utilised to support revenue spending – this will be reviewed annually as part of the Medium Term Financial Strategy and Plan.

The current plan includes support of £3.0 million per annum from New Homes Bonus and assumes that NHB will continue to be funded for 2016/17 and beyond. At present SSDC holds sufficient NHB to fund £3.0 million in 2016/17 and £1.3 million for 2017/18. The allocation for 2017/18 will be topped up to £3.0 million plus £3.0 million will be set aside from the next allocation made to support the 2018/19 budget.

The maximum support from NHB in any one year for ongoing expenditure has been set at £3 million (10% of SSDC's gross spend). The limit and forward funding has been set to ensure that a reduction or the removal of NHB can be managed successfully over a reasonable length of time.

The current estimation is that if members agree to the annual savings targets outlined in the plan some NHB can be released for other priorities by 2017/18.

12. Strategy for Non Domestic Rates Retention (NDR)

The budget set for Non Domestic Rates has historically been set around the central Government baseline. The most prudent level to set NDR for any authority is at the safety net level as this is the guaranteed level of income for any authority. However, taking this course of action requires more budget savings from services that may ultimately not be required. The strategy is therefore to assess the expected outturn for 2015/16 and the budget for 2016/17 and set the budget based on the most reasonable set of assumptions at that time. The main risks are still the around economic growth and appeals. The estimates currently shown within the MTFP are based on the Government's baseline figures for 2015/16 with an inflationary uplift. This will be updated as the budget process progresses.

SSDC agreed to participate in the Somerset NDR Pool for 2015/16. The other member authorities of the pool are Bath and North East Somerset, North Somerset, Somerset County Council, Mendip District Council, Sedgemoor District Council, and Taunton Deane District Council. The pool enables the partners to retain more income from local growth by reducing the levy paid to central Government. The additional income expected from the pool was £2.4 million when budgets were set. SSDC was expected to retain £340k of this. Current

estimates are that the pool will retain £1.4 million of which SSDC will retain £90k. The risk of pooling is that the safety net is much higher than for individual District authorities and therefore any pool losses are likely to be borne by the pool.

The partner authorities need to decide each year whether to continue to pool. If one or more of the member authorities withdraw by the end of October the pool members can reapply to retain the remaining pool. If a pool member decides to withdraw later the pool in effect collapses. Each authority can review its individual settlement details from central Government before it makes a final decision. It is therefore recommended that the final decision is delegated to the Assistant Director – Finance and Corporate Services in consultation with the Leader of the Council and the Finance Portfolio Holder. This will ensure that the authority can use its latest information available before the final decision is made.

13. Strategy for Balances and Reserves

Reserves are set aside for specific purposes whereas balances are retained to meet unforeseen risks. A regular review of financial risks to assess the optimum levels of balances and reserves will be reported to members every quarter. This ensures that the authority has sufficient funds to meet its key financial risks. The strategy remains that balances remain at a level that covers these key risks.

14. Reviewing the Strategy

This strategy will naturally span the life of the Council Plan but will be reviewed annually to take into account changes within and external to the organisation. In more uncertain times the strategy will be reviewed more frequently.

15. The Medium Term Financial Plan

All work on the MTFP is based on current estimates and assumptions. Figures provided at this stage are indicative and will continue to be worked on as things become more certain. The table below shows the estimated additional expenditure required in future years, offset by increased income and savings already identified.

	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
Base budget	17,389.6	16,722.3	16,495.8	16,392.6	16,384.9
Additional payroll requirement	591.6	405.1	391.3	169.0	161.0
Inflation allowance on contracts	233.4	210.7	214.9	219.2	223.6
Additional budget pressures	322.9	322.8	315.2	322.8	319.8
Savings	(127.2)	(9.7)	0.0	0.0	0.0
Revenue effects of Capital Programme	67.8	95.7	95.7	40.0	40.0
Once-Off Expenditure	(137.4)	0.0	0.0	0.0	0.0
Total Budget Requirement	18,340.7	17,747.0	17,513.0	17,143.6	17,129.3

Financed by:					
Revenue Support Grant	2,032.1	1,524.0	1,143.0	857.3	643.0
Council Tax Reduction Scheme then passed to Town and Parish Councils	(314.1)	(284.7)	(264.6)	(250.0)	(239.6)
Business Rate Retention Base Line	3,389.8	3,423.7	3,457.9	3,492.5	3,527.4
Received/Confirmed New Homes Bonus	3,000.0	1,737.7			
Expected New Homes Bonus	0.0	1,262.3	3,000.0	3,000.0	3,000.0
Council Tax	8,614.6	8,832.8	9,056.3	9,285.1	9,519.5
	16,722.3	16,495.8	16,392.6	16,384.9	16,450.3
Budget Shortfall	(1,618.4)	(1,251.1)	(1,120.4)	(758.7)	(679.0)

16. Assumptions for the Plan

There are some principles that underpin the plan. These are as follows:

- SSDC will achieve a balanced budget with the use of balances where appropriate to assist with longer term financial planning;
- That capital bids will be financed through capital receipts.
- That SSDC will remain within any government capping levels to avoid public expense of holding referendums.
- In agreeing new Capital Schemes the revenue implications will be fully costed and added to the MTFP.
- Pay inflation is linked in budgeting terms to government estimates – 1% per annum for the next four years and £200k per annum average additional pension contributions until 2018/19.
- Supplies and Services inflation is linked only to contractually agreed increases.
- All new and revised strategies must review the focus on current activities to realign resources. In exceptional cases where there are additional resource requirements these will be fully costed and added to the MTFP.

In terms of financing the plan:

- Reductions in Revenue Support Grant in line with the provisional allocation for a 25% reduction each year.
- Business Rate Retention will be in line with the estimates set within the NDR1 calculations.

The use of New Homes Bonus is estimated as follows:-

	2016/17 £'million	2017/18 £'million	2018/19 £'million	2018/19 £million
NHB carried forward	4,738	6,329	7,920	8,920
NHB Expected	4,591	4,591	4,000	4,000
NHB Use in year	3,000	3,000	3,000	3,000
NHB retained for budget support for following two years	6,000	6,000	6,000	6,000
NHB remaining	329	1,920	2,920	3,920

- Council Tax is nominally linked to expected Consumer Price Index (CPI) inflation (currently estimated at 1.5% for 2016/17) and will be dependent on the requirement to fund additional inflationary pressures on supplies and services.
- That the base rate is forecast to remain low at 0.5% at least in the short term – the MTFP will reflect actual rates earned current forecast is for 0.9% over the period of the plan.

Additional funding requirements can be added in meeting one of the following criteria:

- Legislative changes, eg welfare reforms.
- Growth in the community, eg increase in number of dwellings serviced by refuse collection.
- Ensuring income budgets are in line with actual income received and future forecasts.
- Other potential changes, eg contract re-tendering.
- Where members have already agreed additional costs through the approval of the corporate plan or a specific strategy.
- An additional investment made to drive efficiency and/or performance to deliver efficiency savings.

17. Council Tax Reduction Scheme

Members approved the current Council Tax Reduction Scheme in December 2013. A Scrutiny Task and Finish Group has been working on a revised scheme which will be reported to Scrutiny Committee. The Finance and Legal Portfolio Holder will then make recommendations to District Executive and full Council by the statutory deadline of the 31st January 2016. The current MTFP projections do not reflect any additional costs or savings to the scheme for 2016/17 as it is likely that central Government changes to tax credits will remove any savings achieved.

The scheme also affects Town and Parish Precepts. The Government has given a grant to District authorities to passport on to the Town and Parishes through their precept. The grant cannot now be identified through Revenue Support Grant (RSG) and members agreed last year that the grant should be reduced or increased at the same levels as the overall reduction in grant to SSDC. The decrease for 2016/17 using expected cuts in RSG and baseline estimate for NDR reduces the grant to the town and parishes by 10.6%. To enable

Town and Parish Councils to plan their finances members are being requested to passport £314,100 as part of this report.

18. Savings

Current estimates are that £5.4 million in savings will be required over the next five years. In a worst case scenario this could rise to £11.9 million. However, this is based on a number of assumptions which currently don't include further savings from Service Redesign nor Joint Working and Shared Services with our neighbouring authorities.

The MTFP is also based on the current Council Plan which is being refreshed for 2016. The Council Plan will outline the future priorities for SSDC and therefore the areas that require funding and also those that can be deprioritised and utilised for future savings.

A two year savings programme was agreed for 2015/16 and 2016/17. Included within the programme were the following four work streams:-

Optimising Income – actively increasing our income, earning income through new sources, and marketing existing services;

Service Redesign – process improvement, EDM, specialist roles, channel shift and sharing (includes Lean);

Contracts and Procurement – reviewing how procurement is delivered and reducing spend on contracts;

Asset Savings – identifying savings from council owned assets (buildings).

Interest rates have remained constant at 0.5% but the Treasury Management Team has continued to find opportunities to increase income and also the expected increase to base rates is being factored into some of the longer term lending and a further £50k can be added to the projected income for 2016/17.

The overall summary of the estimates so far are:-

Project Area	Assumed Achievement 2016/17 £
Optimising Income	402,000
Service Redesign	212,000
Contracts and Procurement	60,000
Asset Savings	48,000
Total	722,000
Other:-	
Treasury Management	50,000
Total Other	50,000
Shortfall to be found from other savings/income	846,400
Overall Total	1,618,400

19. Capital Projects

New capital projects will be presented to District Executive in December 2015.

20. Public/Stakeholder Consultation

Members will receive regular reports as the budget progresses. In addition Scrutiny Committee will be consulted during the process and a workshop will be held to discuss the budget.

Public and stakeholder consultation will continue to take place on specific budget savings proposals throughout the term of the Medium Term Financial Plan.

21. Risks to the Medium Term Financial Strategy and Plan

The Strategy and Plan make regular risk predictions. The key risks to the plan are currently seen as:

- Retention of Business Rates – it is still too early to predict the budget for 2016/17 and the revaluation of bespoke GP Surgeries has shown how unpredictable appeals can be.
- New Homes Bonus - There is a risk that NHB will cease or reduce although currently the Government has not outlined any plans to change the scheme;
- Revenue Support Grant – there is a risk of greater cuts than currently projected a further 5% in 2016/17 will mean further savings of £135k will need to be found;
- Council Tax Reduction Scheme – the approved scheme will be reviewed by District Executive in December or January. Further demand for benefits will remain a risk as will a possible increase in arrears for non-payment. In addition to this the Council Tax increases from the other precepting authorities is not yet known.
- Other Government legislation and new requirements for local authority will remain a risk as funding does not always follow the requirement. These include proposals to transfer to Universal Credits;
- Funding for the Somerset Rivers Board has not yet been agreed and the MTFP currently does not include any increase in contribution from SSDC;
- Housing support and other services may be cut by other authorities which may lead to some of the costs being borne by SSDC.

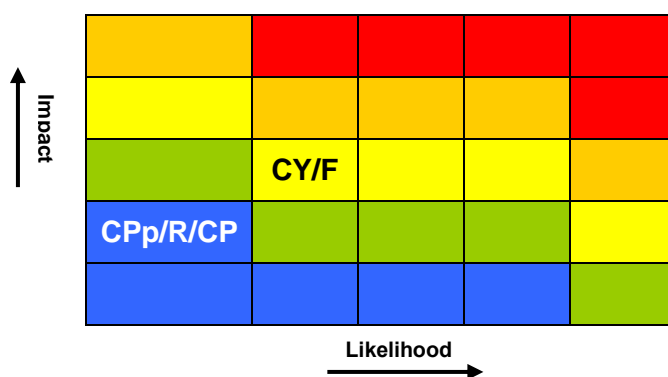
The key risks are determined and agreed by Management Board (MB) and subsequently outlined in each budget setting report to Council. A senior officer is identified to monitor and manage that risk.

22. Budget Deadlines

Scrutiny Committee:	October 15, December 15, January 16, February 16
District Executive:	October 15, December 15, January 16, February 16
Scrutiny Budget Workshop:	December 2015

23. Risk Matrix

This matrix only identifies the risk associated with taking the decision as set out in the report as the recommendation(s). Should there be any proposal to amend the recommendation(s) by either members or officers at the meeting then the impact on the matrix and the risks it identifies must be considered prior to the vote on the recommendation(s) taking place.



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R = Reputation	Red = High impact and high probability
CpP = Corporate Plan Priorities	Orange = Major impact and major probability
CP = Community Priorities	Yellow = Moderate impact and moderate probability
CY = Capacity	Green = Minor impact and minor probability
F = Financial	Blue = Insignificant impact and insignificant probability

24. Council Plan Implications

As outlined in the body of the report.

25. Carbon Emissions and Climate Change Implications

Not applicable.

26. Equality and Diversity Implications

Each saving put forward by managers must outline any impact the saving will have on diversity and equality to ensure that any issues are highlighted to members before a decision is made. An annual report will be made to the Diversity and Equality Panel of all savings that have an impact on any group.

27. Background Papers

District Executive, February 2015
Council Reports, February 2015