Report To:	CABINET	**Date:**	20 FEBRUARY 2017
Heading:	THE COUNCIL'S MEDIUM TERM FINANCIAL STRATEGY 2018/19 TO 2022/23		
Portfolio Holder:	CLLR JACKIE JAMES - CORPORATE SERVICES		
Ward/s:	ALL		
Key Decision:	YES		
Subject To Call-In:	YES		

Purpose Of Report

To consider the Council's Medium Term Financial Strategy for 2018/19 to 2022/23, and to agree a savings target for the financial year 2018/19.

Recommendation(s)

That Cabinet note the continuing forecast budget "gaps" over the next five financial years, and agree that a savings target of £1 million should be set for 2018/19.

Reasons For Recommendation(s)

In order to address the ongoing gap between the Council's need to spend and its available funding, which will require net budget reductions of around £3.8 million between 2018/19 and 2022/23.

Alternative Options Considered (With Reasons Why Not Adopted)

Different alignments of savings could be agreed. The more that the Council saves in the earlier years, the less it will have to save overall.

Detailed Information

Section 1 - General Fund – Budget Savings Targets

The proposed General Fund Revenue Budget for 2017/18 appears elsewhere on this agenda. The continued theme is the need to make new savings annually, to meet the challenges of rising costs and reduced external funding.

Detailed work has been undertaken to forecast the Council's need to spend on its General Fund services, and its likely income, over the further five year period 2018/19 to 2022/23. In order to retain a balance of £1.35m in the General Fund Reserve in 2021/22, the current forecast suggests that a savings package of £3.8m will be required over this five year period.

It is envisaged that these savings will be met by a range of initiatives, including

- The further development of a Commercial Enterprise Strategy
- Improved efficiency through IT development and digital channels
- More efficient use of assets
- Service reviews and shared services

Section 2 - Factors used to update the General Fund MTFS

a) Prudent financial management over the last seven years has realised significant savings for the Council, and has resulted in the Council being able to continue to provide the vast majority of the services which residents value. The recent Local Government Financial Settlement was very disappointing for the Council, as it outlined a further reduction in Government funding, which, over the period 2010/11 to 2020/21, will amount to a 51% reduction.

b) The Council last updated its MTFS in February 2016. This report updates for some of the actual and anticipated changes in expenditure and funding, and takes account of the 2017/18 budget which is also being considered on this agenda.

c) **Employee expenditure** – The future forecasting of the costs of the workforce is affected by a number of factors. These are listed below, with the appropriate assumptions:

- Inflation (pay awards) – Following the announcement on public sector pay in the July 2015 budget, pay awards have been assumed at 1% per annum from 2016/17 to 2019/20, and at 2% from 2020/21 to 2022/23, in line with the forecast increased inflation for this period.

- Future changes to National Insurance contributions – this increased significantly in 2016 but no further significant increases are forecast.

- Future changes to superannuation contributions - notification has been received that these will increase steeply, following the Triennial Valuation of the Nottinghamshire Superannuation Scheme. The increased contributions will add £1.7m to the Council's costs over the next five years.

d) **Price inflation** – As inflation is currently historically low, an estimate for the increase in prices has only been allowed on energy and the SLM contract, on the basis that the impact is low elsewhere in the budget, and should be absorbed.

e) **Capital Financing Charges** – these have been recalculated to reflect the latest Capital Programme which is also being considered on this agenda.

f) **Revenue Support Grant** – following the submission of the Council's Efficiency Plan in October 2016, it has now been confirmed that the Council will receive £697k in 2018/19 and £194k in 2019/20. These will be the final payments of RSG which the Council will receive.

g) **Retained Business Rates** – This MTFS assumes that Retained Business Rates will grow from £4.924m in 2017/18 to £5.575m in 2022/23.

This is the area of resources which is most difficult to predict. The Government has said that it will undertake a "re-basing" of the system in 2019/20 when it implements "Fair Funding" and "100% Business Rates Retention". However no details of these new regimes are yet available.

Even before these potentially significant changes occur, forecasting under the current regime is made difficult by the volume of appeals by businesses to the Valuation Office Agency against their premises' valuations, and also the campaign being undertaken by the NHS nationally to claim charitable relief for hospitals. If the NHS is successful, many councils would struggle financially if required to reimburse the NHS 80% of several year's business rates.

For this report, the current methodology has been forecast forward, as there is as yet no indication of how Retained Business Rates might be calculated under a new regime.

h) **New Homes Bonus (NHB)** – The Government has announced another major policy change, which is a further change from the proposals which were consulted on in 2016.

As well as reducing the award from six years to four, the Government will not in the future pay any NHB on the first 0.4% of any increase in the housing stock. This means that Ashfield loses the New Homes Bonus which it would have received on the first (approximately) 220 houses in each year. This reduction in award will be phased in over each year's new award, reaching its minimum value in 2022/23.

The forward profile for New Homes Bonus is expected to be a decline, from £2.578m in 2017/18 to £1.172m in 2022/23.

i) **Council Tax** – the amount of Council Tax which the Council receives is affected by the change in the Council Tax Base, a measure of the number of "Band D equivalent dwellings", which is adjusted to reflect discounts and Council Tax Support.

Based upon recent trends, where house building has been buoyant in the district, the Council Tax Base is predicted to rise steadily over the next five years, and the forecast Council Tax base will increase from its present value of 32.546.2 to an estimated 34,466.4 in 2022/23.

Council Tax receipts are expected to increase from £5.873m in 2017/18 to £7.081m in 2022/23. This assumes that the current regime (a maximum increase of £5 at Band D) will be retained throughout this period.

j) **Council Tax Support** – In 2012/13 the Council adopted its Localised Council Tax Support Scheme. Because of the ongoing slight reduction in the number of residents claiming this support (which has the impact of increasing the Council Tax Base), and also the continued high performance on Council Tax collection, the scheme is giving the Council a marginal benefit each year based upon its 2013/14 starting point.

Close attention is being paid to the changes as a result of various aspects of Welfare Reform and the figures will continue to be monitored over the next few months, because of the introduction of a national Living Wage, the further roll out of Universal Credit, and the reduction in benefits to some families as a result of changes to the Benefit Cap.. Each of these changes will have an impact on the number of residents claiming Council Tax Support, which is funded entirely by the Council and its preceptors.

k) **Reserves** – this Strategy maintains the Council policy of retaining a balance of at least £1.35m in the General Fund Reserve. The Council's Earmarked Reserves are set out in the budget report on this agenda.

All of the assumptions listed above are continually reviewed, in order to ensure that the MTFS remains fit for purpose, and can be relied upon

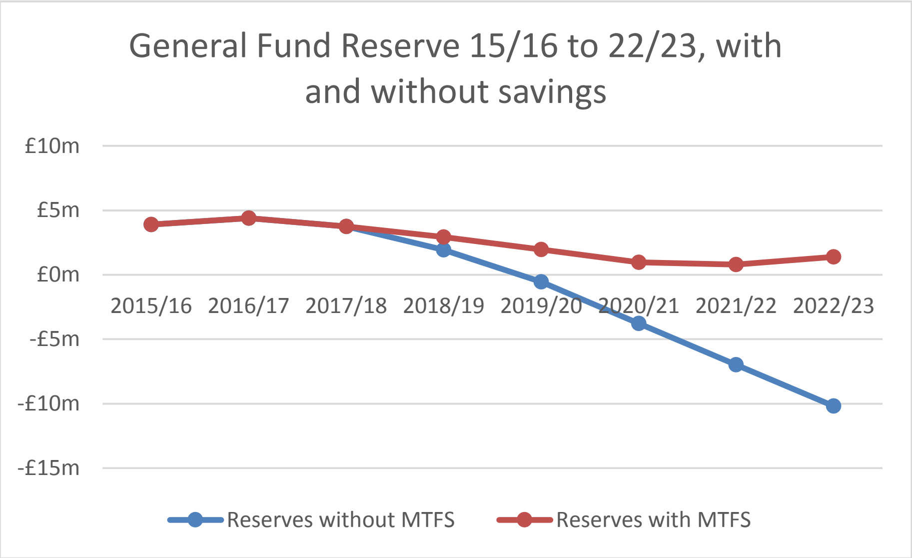
l) Conclusions – General Fund Savings Required

Having identified a savings package of £1m in the current budget round, the Council will need to find £3.8m of further savings between 2018/19 and 2022/23.

It is prudent to consider these savings as early into the period as possible, and to this end a savings target of £1m is proposed for 2018/19. Work will begin immediately to identify savings towards this figure, and it may well be that some initiatives will be implemented in 2017/18, thus contributing extra savings.

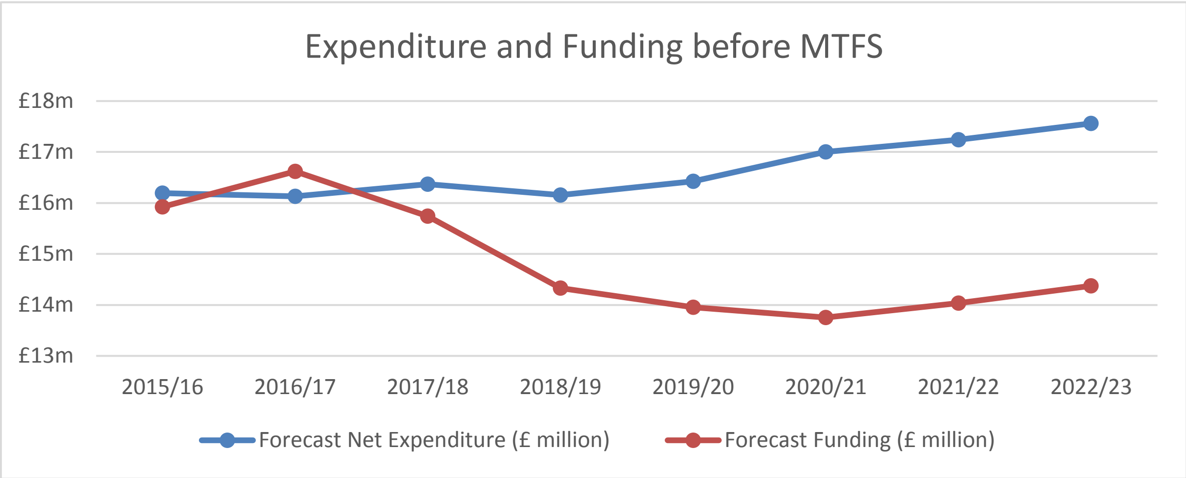
The graph below demonstrates the impact on the Council's General Reserve of making the reductions, and the (hypothetical) negative balance if the reductions are not made. Table 1 below also reflects this hypothetical deficit in the General Fund Reserve.

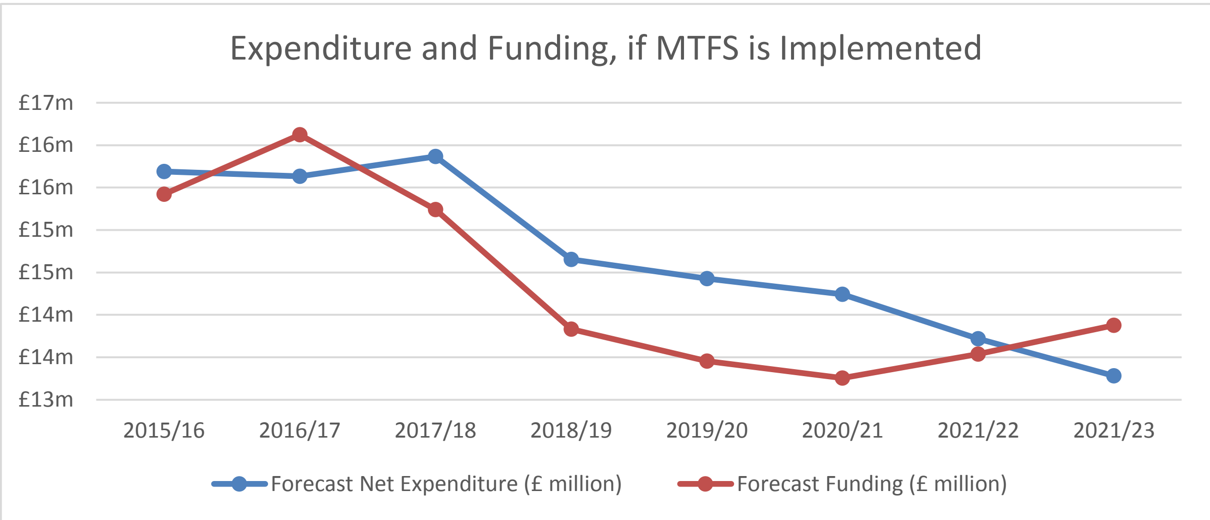
If the Council can successfully reduce its budgets by £3.8m over this period, the balance in the General Fund Reserve will be retained at £1.35 million at the end of 2022/23.



m)The impact of making the savings

The impact of the savings of the Council's forward expenditure profile can be seen in the two tables below. The first reflects the position if no savings are made, demonstrating the budget gap would widen each year. In the second, it is assumed that the savings have been made, and it can be seen that expenditure and resources are much more closely aligned.





Section 3 – Tables showing forecasts to 2022/23

Table 1 – Summary of Expenditure and Income, before savings targets applied

	2018/19 (£ 000s)	2019/20 (£ 000s)	2020/21 (£ 000s)	2021/22 (£ 000s)	2022/23 (£ 000s)
Service Expenditure (at 2017/18 prices)	13,673	13,708	13,790	13,796	13,802
Contingencies	174	351	687	1,025	1,363
Borrowing & financing costs	1,750	1,848	1,966	1,861	1,837
Interest payable and receivable	20	20	20	20	20
Transfers to earmarked reserves	38	0	38	38	38
Total Expenditure	**15,655**	**15,927**	**16,501**	**16,740**	**17,060**
Revenue Support Grant	(697)	(194)	0	0	0
Retained Business Rates	(5,002)	(5,161)	(5,294)	(5,429)	(5,575)
New Homes Bonus	(1,976)	(1,604)	(1,323)	(1,226)	(1,172)
Minor Grants	0	0	0	0	0
Council Tax	(6,106)	(6,344)	(6,586)	(6,831)	(7,081)
Council Tax Collection Fund Adjustment	0	0	0	0	0
Retained Business Rates Collection Fund Adjustment	0	0	0	0	0
Transfers from earmarked reserves	(50)	(150)	(50)	(50)	(50)
Total Funding	**(13,831)**	**(13,453)**	**(13,253)**	**(13,536)**	**(13,878)**
Net Deficit or (Surplus) in the Year	**1,824**	**2,474**	**3,248**	**3,204**	**3,182**

<u>General Fund Reserve</u>

Balance Brought Forward 1st April	**(3,758)**	**(1,934)**	**540**	**3,788**	**6,992**
Deficit or (surplus) in the Year	1,824	2,474	3,248	3,204	3,182
Balance Carried Forward 31st March	**(1,934)**	**540**	**3,788**	**6,992**	**10,174**

Implications

Corporate Plan: The MTFS underpins all of the Corporate Plan priorities.

Legal: This report sets out a framework within which balanced budgets can be achieved over the next five years.

Finance:

This report covers the period 2018/19 to 2022/23 and has the following financial implications:

Budget Area	Implication
General Fund – Revenue Budget	The report sets out the targets required to continue to ensure that its General Fund services can be delivered. Annual savings targets will be considered during each year's budget process.
General Fund – Capital Programme	No implications
Housing Revenue Account – Revenue Budget	No implications
Housing Revenue Account – Capital Programme	No implications

Human Resources / Equality and Diversity: No direct implications

Other Implications:

None

Reason(s) for Urgency (if applicable):

None

Background Papers

None

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