



East
Northamptonshire
Council

Finance Sub-Committee 1 December 2014

Draft Medium Term Financial Strategy and Plan

Purpose of report

The purpose of this report is to set out the Council's Draft Medium Term Financial Strategy (MTFS) and Plan (MFTP) 2015/16 to 2018/19, outline the Draft Revenue Budget 2015/16, Draft Capital Programme 2015/16 to 2024/25 and Draft Treasury Management Strategy 2015/16.

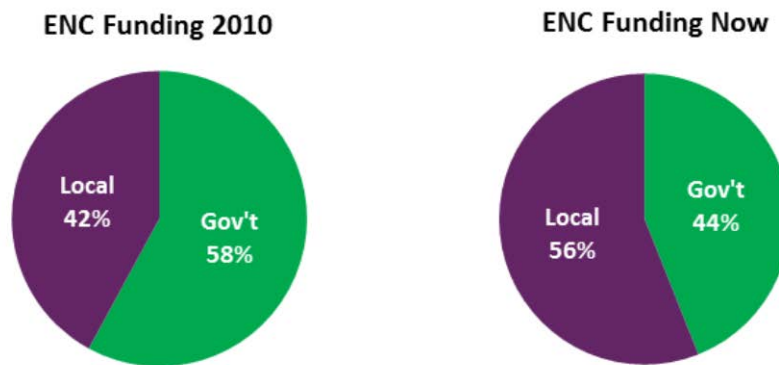
Attachment(s):

- Appendix 1 – Draft MTFS Summary 2015/16 – 2018/19
- Appendix 2 – Medium Term Financial Plan
- Appendix 3 – Draft Revenue Budget Changes 2015/16
- Appendix 4 – Draft Capital Programme 2015/16 – 2024/25

1. Overview and context

- 1.1. This report refreshes the Medium Term Financial Strategy 2014/15 to 2017/18 that was approved by Council in February 2014.
- 1.2. The MTFS 2014/15 to 2017/18 was formulated during a difficult financial settlement, which was designed to address the challenging national financial position. There were a significant number of policy changes which had to be addressed and incorporated into the financial forecast.
- 1.3. Positive signs are emerging from the large amount of data and intelligence surrounding the UK economy. However, there remains some uncertainty over the outlook for the UK and this will continue to put pressure on Local Government finances over the medium term.
- 1.4. In October 2010 the Government announced its 2010 Spending Review (SR10), which set budgets for Government departments up to 2014/15. As part of the 2014/15 settlement indicative figures were announced for 2015/16.
- 1.5. The spending review set out the agenda for public service reform, shifting power and funding away from Central Government to the local level.
- 1.6. The public service reform sets out the agenda for “increasing freedom, sharing responsibility and getting better value for money from public services”. This is to be achieved by:
 - Localising power and funding
 - Cutting regulatory burdens
 - Improving transparency, efficiency and accountability
- 1.7. Localising power and funding involved a review of local government. During 2011 the terms of reference for the Local Government Resources Review (LGRR) were announced. This review was to:
 - consider changes to the way councils are funded
 - look at ways to incentivise growth through retention of business rates
 - increase autonomy and reduce dependency on central funding
 - review how funding is raised locally
- 1.8. Since 2010 the way Councils are funded has changed. The graphs below demonstrate how the balance has changed between what is funded directly by the

government versus what is raised locally. The latter now accounts for over 50% of funding the Council manages.



- 1.9. The Government's changes around the Business Rate Retention Scheme and localisation of council tax support are a major part of the reason for this shift in funding.

2. Long Term Financial Position

- 2.1. There remains some short term uncertainty, but the biggest risk facing the Council is in assessing the financial implications of proposed changes to Local Government funding over the longer term on our continuing to provide services at current levels.
- 2.2. The major uncertainties and changes affecting Local Government are going to impact principally upon levels of funding over the long term. The situation will be closely monitored and any risks and assumptions reviewed as necessary.
- 2.3. Whilst it must be recognised that there is a lot of uncertainty, the preparations and setting of a MTFs and budget must still take place.
- 2.4. In addition to the uncertainty around the Council's revenue budget over the longer term, there are also some significant risks surrounding the future of the Council's capital programme.
- 2.5. The capital programme is projected for a period of 10 years to help the Council manage its assets. A large amount of work is being undertaken to assess the condition of the Council's assets and ensure that the future life cycle costs of the assets are fully reflected in the capital programme.
- 2.6. The funding of the capital programme remains a risk, and approaches to manage this risk are reflected within this budget report.

3. Government Funding and Policy Changes

- 3.1. The changes to local government funding referred to in section 1 of this report are set out in detail below.
- 3.2. ***Business Rates Retention Scheme***
- 3.2.1. The previous grant regime was replaced with a Business Rate Retention Scheme in April 2013. The key aim of this is to incentivise local business growth. Following extensive lobbying from local government, it was announced that at least 25% of business rates growth will be retained locally. The Council continues to work with other councils across Northamptonshire to maximise the benefits of pooling arrangements across the county. The previous pooling arrangement is planned to be dissolved with effect from 31st March 2015 with a new pool in place from 1st April 2015. The new pool will feature a different configuration of councils. The effect of

this new arrangement is expected to increase the benefit to the Council by a further £175k, to £325k.

3.3. **Local Council Tax Support Scheme**

- 3.3.1. The Council Tax Benefit system ceased at the end of March 2013 as a result of the Welfare Reform Bill, and was replaced with the localised scheme administered by the Council. The Government reduced the funding for the scheme by 10% and the expectation was that this would be offset by reductions in expenditure. The Council continues to work with other authorities across the County to identify how some of this impact could be mitigated. Our Council Tax Support Scheme is being recommended to Council from Welfare Reform Sub Committee in December. It is proposed that the scheme remains unchanged for 2015/16, and is planned to remain self financing.

3.4. **Welfare Reform**

- 3.4.1. Over the medium term planning period, more information and detail will be released about universal credit and other welfare reform initiatives which will have an impact upon the current service provision of ENC.
- 3.4.2. Two staff are being transferred to the Department for Work and Pensions under the transfer of responsibility for the Single Fraud Investigation Service. This is taking place in December 2014. The implications of this have been incorporated in the MTFS.
- 3.4.3. Universal Credit is being made available to people who are on a low income or are out of work. It aims to make the welfare system simpler by replacing six benefits and tax credits with a single monthly payment. It includes support for the costs of housing, children and childcare, as well as support for disabled people and carers. The Government has confirmed that it remains on track to deliver Universal Credit safely and securely by 2017. However, no indication has been given as to when ENC residents will be able to claim or be migrated over to Universal Credit. The Council has one resident in receipt of Universal Credit as they moved here from a pathfinder area.

3.5. **Disabled Facilities Grants (DFGs)**

- 3.5.1. Funding to assist authorities meet the cost of providing DFGs for disabled people is currently paid by Department for Communities and Local Government (DCLG) as a capital grant.
- 3.5.2. In July 2013, as part of the government spending review, it was announced that from 2015/16 the total DFG grant for LAs will be £220m. For 2015/16 all of this central government funding will be provided by the Department of Health (DH), with no capital spend on DFGs by DCLG. This DH funding is included in the Better Care Fund (BCF).
- 3.5.3. The demand for DFGs to the Council is increasing because of the aim to keep people living at home for longer, and the scale of works required will also increase. Our current demand for DFGs for 2015-16 is in excess of £300k with new referrals coming in from NCC Occupational Therapists all the time. Due to the increase in demand it is proposed that the Council should increase the provision within the capital programme, as set out in section 9.8.
- 3.5.4. Countywide, work continues to develop a framework for contractors with the aim of driving down the unit price of the works and to speed up the delivery from approval to starting on site.

3.6. **Government Funding**

3.6.1. The Coalition Government has followed a policy of austerity to address the deficit position and public sector net debt. Despite the improving position in the economy as a whole, it is likely that restraints will continue on public sector spending for the medium term. The forthcoming general election in 2015 makes it difficult to predict Government policy, but reductions in Government funding of 10% are expected.

4. **Draft Medium Term Financial Strategy**

4.1. Each year the Council reviews and considers its financial position and develops a model for forecasting the likely position over the medium term. The overall purpose of the MTFFS is to enable the Council to manage its future finances and ensure that its plans are sustainable. This is becoming increasingly difficult because of the severity of government spending cuts, recent freezes of Council Tax, government policy changes, high levels of inflation and some significant uncertainties over future costs and income. This report explores some of these details and sets out the MTFFS based on a set of assumptions about those key variables.

4.2. The Council's financial strategy for the medium term is to:
"Ensure the financial position is stable and sustainable with resources focussed on its priorities"

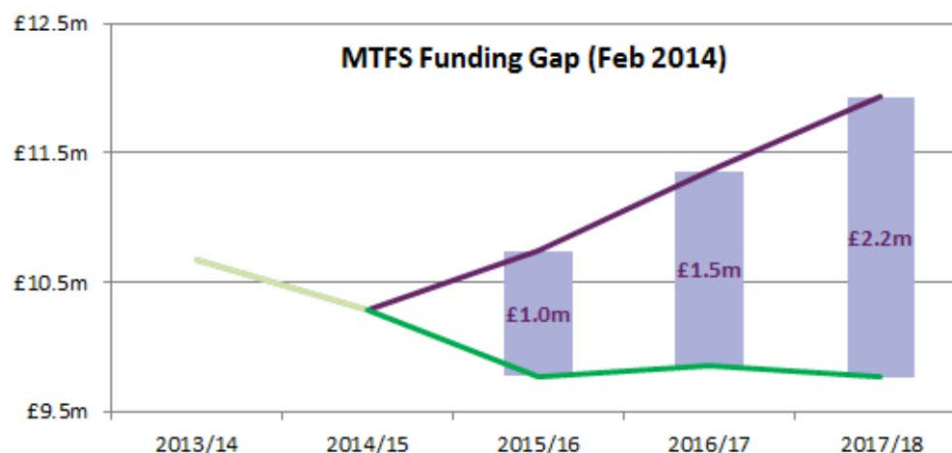
4.3. The MTFFS and Budget 2015/16 set out in this report have been developed to address the financial challenges identified above. The MTFFS includes our capital spending plans as these have a direct and sometimes significant impact on our revenue expenditure.

4.4. The MTFFS includes:

- estimated receipts from central government in the form of core funding, through Revenue Support Grant;
- estimated income from Council Tax, based on our estimated Council Tax base and assumptions as to the level of Council Tax increases over the period; and
- transfers to or from the Council's revenue reserves

4.5. This report updates the MTFFS that was set for 2014/15 - 2017/18 and was approved by Council on 26 February 2014. At that time it had been identified that, over the medium term, there was likely to be a funding gap between what the Council expected to spend compared to funding that was anticipated to be received.

4.6. The graph below demonstrates the forecast funding gap over the medium term as at February 2014.



5. Review of Assumptions

5.1 In order to address the funding gap that had previously been identified, as outlined in paragraph 4.5, officers and members have been working to review and challenge the assumptions within the last MTFS, and to bridge the funding gap. An in-depth review has taken place. All assumptions have been reviewed and challenged, and where amendments have been made these are outlined below.

5.2 The key assumptions in the MTFS are as follows:

Revenue Budget	<ul style="list-style-type: none"> The Council will spend around £10m (net) each year There is no reliance on one-off funding from reserves over the MTFS period
Council Tax	<ul style="list-style-type: none"> It is assumed that there is no increase to Council tax for 2015/16. Council tax is assumed to be £123.65 for 2015/16 Lowest council tax in the county
Government Funding	<ul style="list-style-type: none"> Continue to maximise the proportion of business rates growth retained locally by “pooling” its business rates with other councils in Northamptonshire Reductions in Revenue Support Grant of 10% per annum over the medium term
Capital Programme	<ul style="list-style-type: none"> Invest up to £10.9m over 10 year MTFS period Requirements to look into other capital funding sources over the medium term Continue with current asset sales strategy Continue with implementation of capital governance arrangements
Reserves	<ul style="list-style-type: none"> Maintain a minimum level of reserves of £1.5m to ensure the Council can meet unforeseen costs in the long term, and to manage the shorter-term risks

5.3 *Previous Committee Decisions*

The following Committee decisions have been factored into the MTFS.

Committee Decision	Revenue Savings
	£000
Pest Control – reduce provision	15
Withdrawal from Northamptonshire Waste Partnership	14
Total	<u>29</u>

5.4 *Employee Costs*

5.4.1 Recently Unison submitted a national claim for a pay increase. This equates to a 2.2% increase over the period from January 2015 to March 2016. The proposal has been agreed by Local Government Employers, and has been incorporated into the MTFS. Pay inflation has been assumed to be 1% from 2016/17 onwards.

5.4.2 Over the past 3 years the Council has budgeted for a full establishment; however, due to vacancies arising from staff turnover, the budget has been consistently underspent. The Council has experienced an average staff cost variance of 4.6% during this period.

5.4.3 Vacancy factors have been trialled during 2014/15 and monitored via Finance Sub-Committee and CMT. These have now been incorporated into the 2015/16 budget and MTFS.

5.4.4 Based on previous years and following a prudent approach, a level of 3.5% (£210k) has been assumed.

5.4.5 With reducing workforces across many organisations, the ability to provide for the future pension liability through pension contributions from the reduced workforce is

extremely difficult. The process for recovery of pension deficit costs changed in 2011/12. This put additional pressure on budgets.

5.4.6 The employer pension costs paid to the Local Government Pension Scheme (LGPS) are an uncontrollable cost.

5.4.7 Estimated information received to date indicates an annual pressure of around £84k each year over the medium term will be required in respect of the pensions deficit. This has been incorporated into the MTFS.

5.5 ***Contract Costs***

5.5.1 Contractual commitment costs have been reducing over the past few years with new and renewed contracts being procured. The majority of contracts have been in place for a number of months or years and there is more certainty when forecasting future inflationary increases within the contract.

5.5.2 Contractual commitments have been reviewed, and contractual inflation has only been built into the MTFS where it is mentioned within the contract. It has been assumed that all other contracts will be maintained within current levels of expenditure. This is a change from the assumption in the previous MTFS of an inflationary increase across all contracts. A further review of contracts will be undertaken as part of the MTFP.

5.6 ***General Inflation***

5.6.1 As part of the review of assumptions, general inflation has been removed. Only pay, contractual and utilities inflation is assumed within the MTFS.

5.7 ***Fees and Charges***

5.7.1 The previous MTFS assumed increases in charges in line with the Retail Price Index (RPI) to reflect the economic climate. For 2014/15 a thorough review of all fees and charges is being undertaken to understand what increases can be put in place that ensures that demand is reflected in the charge and costs are fully recovered. Updates will be fed back to members once this review has been completed.

5.8 ***Investment Income***

5.8.1 The current low level of interest rates has resulted in significant reductions in our investment income. We previously assumed investment returns of 1% in 2013/14, increasing to 3% by 2016/17 as the economic position improves. It is now anticipated that investment returns will remain lower for longer than previously forecast and as a result the anticipated return on investment for 2015/16 is likely to be around 0.6%, increasing to around 1.25% by 2017/18. There are significant risks in estimating the rate at which the economic position will improve, and we have taken a relatively cautious view.

5.9 ***Council Tax Base***

5.9.1 The assumptions relating to the Council Tax Base have been reviewed. The estimated Billing Authority tax base for 2015/16 is 29,397 compared to 28,353 for 2014/15. The increase in the tax base is attributable mainly to new property completions and the reduction in Council Tax Support expenditure. This is illustrated in the table below. The proposed tax base for 2015/16 also takes into account other discounts and exemptions, anticipated additional new properties and a small provision for non-collection. That has been amended from 1.8% to 1.3% to reflect the better than expected collection of Council Tax from CTS payers and owners of empty properties

2014/15 Tax base	28,353	
Amendment to 14/15 baseline	488	Actual new property completions exceeding the original forecast.
New properties	110	Increase in the anticipated number of new property completions over the next twelve months.
Council Tax support	389	Substantial reduction in CTS expenditure indicating the scheme is successful in encouraging claimants to return to work.
Discounts/Exemptions	(73)	Slight increase in exemptions and single occupier discounts.
Changes in collection rate	130	Change of approx. 0.5% to reflect better than expected collection.
2015/16 Tax base	29,397	

5.10 **Council Tax**

5.10.1 It has been assumed within the MTFs that Council Tax will remain unchanged for 2015/16. The Council would therefore qualify for a Council Tax Freeze Grant, equivalent to a 1% rise, £38k, for one year only. A 1.99% increase has been assumed for subsequent years.

5.10.2 In line with previous years, the Secretary of State has proposed that a 2% referendum trigger will apply for all principal local authorities in 2015/16.

5.11 **Council Tax Support Funding**

5.11.1 ENC will receive Council Tax Support Funding in 2015/16. This funding is not ring-fenced and can be used to support any spending the Council incurs. The Government has indicated that a proportion of this funding could be passported to local precepting authorities at the Council's discretion; this is similar to previous years.

5.11.2 The funding is an on-going grant to offset (less a 10% reduction) the reduced tax base resulting from the changes to Local Council Tax Support Scheme. This grant is included within the Government funding formula and is expected to reduce in future years in line with government funding.

5.11.3 Following the introduction of CTS, the Council passed on the appropriate proportion of the grant in 2013/14 and advised Town and Parish Councils that there was no guarantee that this funding stream would be available in the future due to the funding uncertainty facing local government. We also advised them that there was a risk that increases in parish precepts above a certain level could be subject to referendum requirements in future years, and that they needed to consider how to address that risk.

5.11.4 Having considered their individual circumstances, 39 of the 41 precepting Town and Parish Councils decided either to keep their 2013/14 precept the same or increase it by a percentage equivalent to or above the reduction in their tax base caused by the introduction of CTS. They therefore did not need and were not expecting us to pass on any grant. The MTFs assumes that the grant will not be passported in 2015/16 or thereafter.

5.12 **Business Rates**

5.12.1 Two elements of growth have been built in to the MTFs:

- Rushden Lakes 600k
- Further growth in the district 180k

An officer working party comprising staff from Planning, Revenues and Finance has been looking at Business Rates with the aim of increasing business intelligence and understanding, and to forecast growth in future years. A proportion of this is related to the Rushden Lakes development. Further growth of £140k-£180k across the district has been estimated. There is an associated risk that the timing of when these growth elements are realised could be different to the timescales that have been estimated.

5.13 **Government Funding**

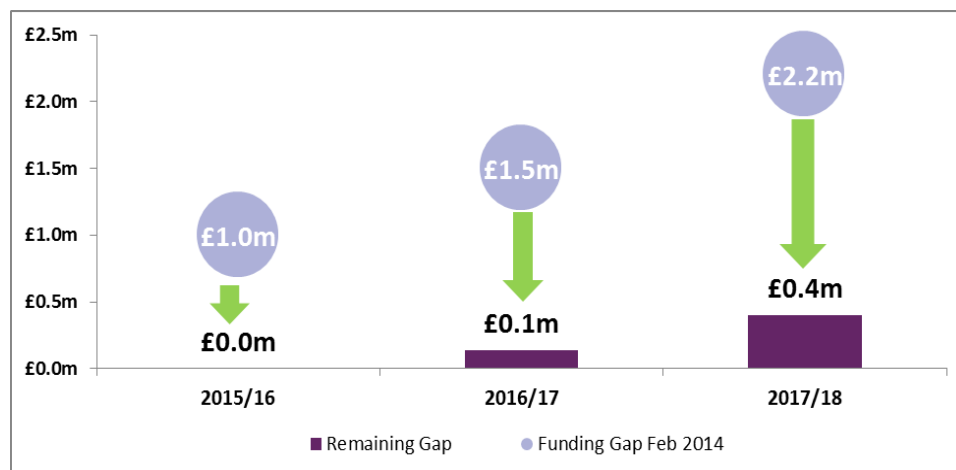
5.13.1 The MTFS assumes a reduction in government funding of 10% per annum. There is some uncertainty over this figure due to the forthcoming general election; however, austerity is expected to continue, and a range of 7% - 15% has been considered. The MTFS has assumed 10% as it falls in the middle of this range. Greater clarity around government funding is expected following the Chancellor's autumn statement in December 2014. Any changes as a result of the autumn statement will be incorporated into the Council's final budget in February 2015.

5.14 **Bridging the Funding Gap**

5.14.1 The effect of the changes outlined above has been to reduce the initial funding gap within the MTFS, as outlined in paragraph 4.5.

	2015/16 £000	2016/17 £000	2017/18 £000
Starting position	962	1,504	2,158
Committee decisions	(15)	(29)	(29)
Vacancy factor	(200)	(200)	(200)
Pay awards – change to assumption	(60)	(120)	(180)
Contractual inflation – change to assumption	(35)	(70)	(105)
Remove general inflation	(40)	(80)	(120)
Business Rates – Rushden Lakes	0	(300)	(600)
Business Rates – Predicted growth	(140)	(160)	(180)
Pensions deficit	0	84	168
Underspends identified through 14/15 financial monitoring	(486)	(486)	(486)
Updated position	(14)	143	426

5.14.2 The resultant change in the MTFS position is shown in the graph below.



5.15 **MTFS Summary**

5.15.1 A summary of the draft MTFS is shown in Appendix 1.

6 **Medium Term Financial Plan (MTFP)**

6.1 Work has continued to identify proposals to close the remaining funding gap over the medium term. This has also sought to create headroom over and above funding gap to allow funds to be made available for financing the future Capital programme, corporate objectives and political priorities. This will allow the Council to move from having a *Medium Term Financial Strategy* to a *Medium Term Financial Plan*.

6.2 The MTFP for 2015/16 – 2017/18 is shown in Appendix 2.

7 **Risks**

7.1 **Government Funding**

7.1.1 The MTFS assumes reductions in Government funding of 10% per annum. Due to the uncertainty and limited information available for the period, funding is predicted to reduce by between 7%-15% each year.

7.1.2 The Draft Local Government Finance Settlement 2015/16 is due to be announced in December and any changes arising from this will be incorporated into the final budget.

7.1.3 As outlined in section 5.11, the MTFS assumes that Council Tax Support Grant will not be passported to precepting Town and Parish Councils in 2015/16. There is a risk that the Government could legislate to force the payment for this to Town and Parish Councils. Were this to happen, the cost to the Council would be £195k.

7.2 **Waste Cost Mitigation**

7.2.1 There is a potential pressure of £500k per annum from 2017/18 onwards due to the renewal of the waste contract. This cost will need to be mitigated within the Waste Management service.

7.3 **Pressures from Other Public Sector Bodies**

7.3.1 The forecast continued reduction in public sector funding is expected to see further changes implemented by other public sector bodies as they reduce their levels of spending. Some of these could have an adverse impact on East Northamptonshire Council's budget, either directly or indirectly. Particular areas of risk are areas of expenditure where there are links with the County Council or Health. Examples could include changes at a county level to waste management, reducing or

scrapping the payment of recycling credits, or the way in which DFGs are funded now that this forms part of the Better Care Fund. The impact of such changes would not be known until the County Council publishes its draft budget and the Northamptonshire Better Care Fund is signed off.

7.4 **Business Rates**

7.4.1 Changes to businesses' circumstances can affect the income due to the Council from Business Rates. Changes that can happen include appeals, demolitions, changes in use, and Business Rate Reliefs. These changes can be significant and are often difficult to predict. They are closely monitored and analysed to ensure that forecasting of future business rate income is robust and accurate.

8 **Draft Revenue Budget 2015/16**

8.1 **Revenue Outturn 2014/15**

8.1.1 The Council is committed to focusing its resources on its priorities and will continue to drive out efficiencies to help meet the financial challenges over the medium term.

8.1.2 The 2014/15 budget monitoring is currently showing an underspend of £928k. This demonstrates that the Council is managing within current resources. Over 40% of this underspend is attributable to planning fee income being significantly higher than budgeted. A proportion of the underspend is one-off in nature, but any on-going savings will be incorporated into the budget.

8.1.3 At present the £928k underspend will form a contribution to revenue reserves at the end of the financial year.

8.2 **Revenue Budget 2015/16**

8.2.1 The Council needs to spend £9.1m in 2015/16 to maintain current services, with a budget requirement of £9.9m. A summary of the DRAFT revenue budget for 2015/16 is set out below:

2014/15 £		2015/16 £
1,792,657	Customer and Community Services	1,293,124
2,734,280	Environmental Services	2,834,260
961,640	Information Technology	942,840
1,751,850	Resources and Organisational Development	1,796,427
1,178,850	Planning Services	1,229,510
1,225,600	Corporate and Democratic Core	1,062,630
9,644,877	Total Net Expenditure	9,158,791
59,800	Transfer to Earmarked Reserves	380,198
609,927	Community Projects	915,832
(25,536)	Net Interest (Received) / Paid	(78,000)
10,289,068	Budget Requirement	10,376,821

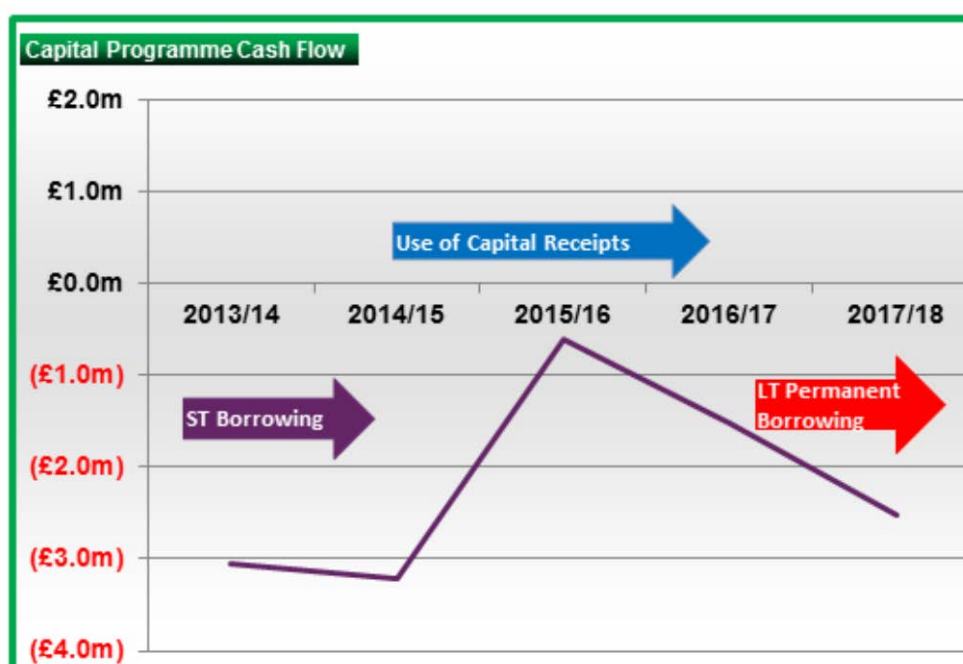
8.2.2 The total service net expenditure in the revenue budget for 2015/16 is £486k lower than the approved budget 2014/15. This is due to the following changes:

	£k
Revenue Budget Net Service Expenditure 2014/15	9,645
Service Pressures and Budget Increases	88
Savings and Additional Income (excl. Government Funding and Council Tax)	(574)
Revenue Budget Net Service Expenditure 2014/15	9,159

8.2.3 A full analysis of the revenue budget changes is shown at Appendix 3.

9 Draft Capital Programme 2015/16 to 2024/25

9.1 The Council's projected capital cash flow as at February 2014 is shown in the following graph.

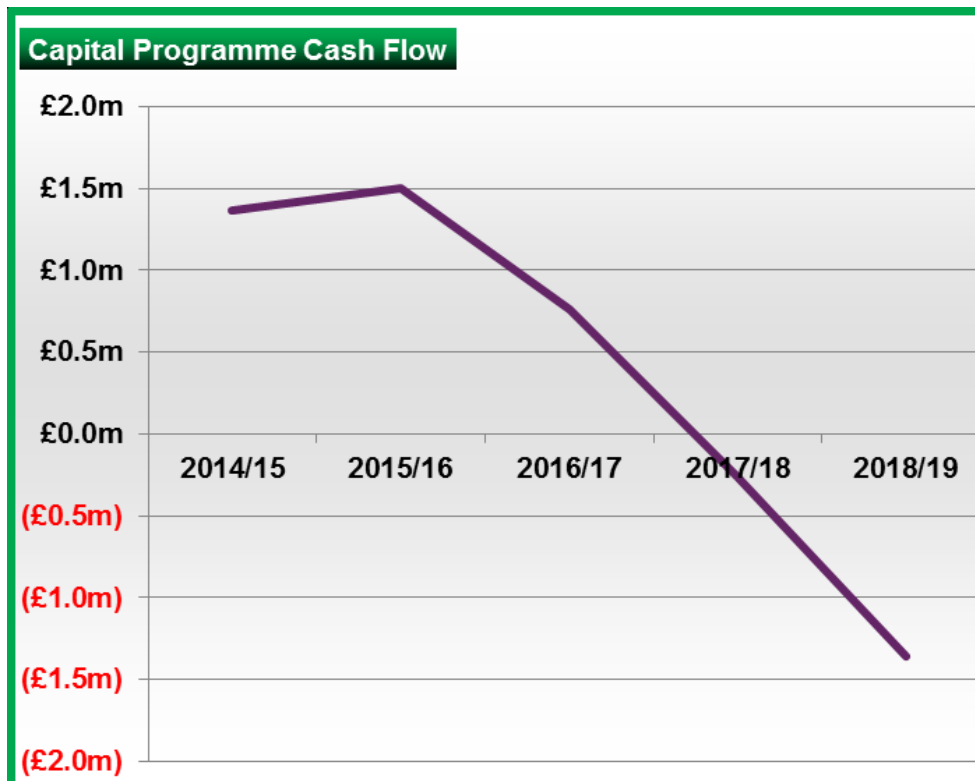


9.2 For 2014/15 the capital programme has been split into two sections – the approved capital programme, for those schemes that have specific funding which has been released; and the development pool of proposed schemes. These schemes would remain within the development pool until such time as funding became available, at which point they would go to Finance Sub-Committee for approval to move into the approved programme.

9.3 During 2014/15 there have been two batches of capital schemes that have been released into the approved programme. These were approved by Finance Sub Committee

9.4 Since the last budget was set, further capital receipts arising from asset sales have been received earlier than previously anticipated.

9.5 As a result, the latest position on the capital cash flow is now as follows:
This includes the reversal of the negative Capital Financing Requirement (CFR) of £2.4m, as identified during the closure of the 13/14 accounts. CFR is a measure of capital financing incurred historically which has yet to be financed. As the Council identified a negative CFR position it meant that this could be used to finance capital expenditure.



9.6 The graph shows the cash flow over the medium term based on the current capital programme and development pool. It is currently anticipated (based on all schemes being approved) that during 2017/18 the Council will run out of capital resources and be required to seek alternative options for financing capital expenditure. This position is being proactively mitigated through the MTFP.

9.7 **Capital Outturn 2014/15**

9.7.1 The capital programme 2014/15 is currently forecasting a variance of £5k.

9.7.2 The 2014/15 capital programme is summarised in the table below:

	2014/15
Approved Capital Programme	£1,549,140
Total Expenditure	£1,549,140
Funded by:	
Wheeled bins – RCCO	£208,500
DFG - 2 nd homes from NCC	£220,412
DFG - Capital Grant	£178,107
Capital Reserves	£942,121
Government Grant	£0
Total Funding	£1,549,140

9.7.3 As set out in the quarter 2 budget monitoring report, the Council has released the £2.4m negative capital financing requirement identified during the production of the Statement of Accounts from unusable to usable reserves. This has provided a short term boost for the Capital Programme.

9.7.4 Due to the capital cash flow position outlined in the graph above, any capital underspend for 2014/15 will reduce the need to borrow (use surplus cash reserves) in the short term and would not be a benefit to the reserves position.

9.8 **Capital Programme 2015/16 and beyond**

9.8.1 The main aim of the Capital Programme 2015/16 to 2024/25 is to set out a programme which is affordable, ensures business continuity for the Council's services and enables investment in Council priorities. To achieve these, often competing, objectives, the Council's capital spending must be reviewed and scrutinised in the same way as revenue expenditure to ensure the schemes put forward meet the Council's priorities and are affordable.

9.8.2 The programme is focussed on maintaining business continuity, meeting statutory obligations and investing in assets to improve revenue income streams.

9.8.3 The development pool has been reviewed and updated by CMT in line with current and future service planning. Further information about individual schemes can be requested from the relevant Head of Service. The revised position is shown in Appendix 4.

9.9 **Revised Capital Position**

9.9.1 After taking into account the proposed changes to the capital programme, the revised programme is as follows.

	2015/16	Future Years	Total
Approved Capital Programme	811,000		811,000
Development Pool	873,000	9,296,600	10,169,600
Total Expenditure	1,684,000	9,296,600	10,980,600
Funded by:		Future funding streams will be agreed annually as part of the budget setting process	
Capital Reserves (including Proceeds from Asset Sales)	1,284,000		
Grant and Revenue Contribution	400,000		
Borrowing	0		
Total Funding	1,684,000		

9.9.2 The revised programme above reflects the capital investment needs over the longer term and reflects what investment is likely to be required to maintain the current service levels.

10 **Reserves and Balances Strategy**

10.1 Historically the Council has used its reserves to fund the Council's capital and revenue spending. This is not sustainable on an on-going basis. The aim is to achieve a balanced budget (i.e. no draw on reserves) over the period of the MTFS.

10.2 **Minimum Level of Reserves**

10.2.1 There is a regulatory requirement to set a minimum level of reserves.

10.2.2 Having considered the risks facing the Council in the short, medium and long term its is proposed to reduce the minimum level of reserves to £1.5m as follows:

- An underlying minimum level of £1m for the long term, and
- In the short to medium term to maintain the minimum level to £1.5m to reflect the uncertainties currently facing the Council

10.2.3 There remain a number of uncertainties, including:

- currently unaffordable capital programme over the medium/longer term
- mitigating the expected medium term cost pressures on the waste service
- delivery of a cost reduction / income generation programme to ensure on-going revenue spending is sustainable

10.2.4 In order to fully capture and manage the risks and their impact on reserves, a reserves matrix is used. This is a grid which sets out the risks facing the Council and applies a financial probability to each risk. The matrix will assist the Council in determining the correct level of minimum reserves required.

10.2.5 The table below sets out the Council's forecast reserves position:

	Forecast position as at				
	31/03/2014	31/03/2015	31/03/2016	31/03/2017	31/03/2018
	£000	£000	£000	£000	£000
Council Improvement Reserve	2,674	2,924	2,924	2,924	2,924
Budgeted contribution to reserves	0	380	613	1,115	1,405
Regeneration Reserve	480	480	480	480	480
Planning Reserve	100	0	0	0	0
Land Charges	200	0	0	0	0
Community Projects	229	0	0	0	0
Elections Reserve	120	120	30	60	90
Carry forwards 2013/14	1	1	1	1	1
Insurance Reserve	100	100	100	100	100
Capital Financing	87	87	87	87	87
Environment (HI 4 EM)	40	0	0	0	0
Empty Homes	24	0	0	0	0
Earmarked Revenue Reserves	4,055	4,005	4,148	4,680	5,000
Underlying minimum level of reserves	1,000	1,000	1,000	1,000	1,000
Enhanced minimum level of reserves	750	500	500	500	500
Total Revenue Reserves	5,805	5,505	5,648	6,180	6,500
Estimated Outturn Position as at 31/12/14 <i>(Subject to change)</i>	674	988	988	988	988
Total Estimated Contribution	674	988	988	988	988
Capital Reserves	0	2,400	2,400	2,400	2,400
Capital Receipts Reserve	0	0	0	0	0
Total Capital Reserves	0	2,400	2,400	2,400	2,400
Total Reserves	6,479	8,893	9,036	9,568	9,888

10.3 **Future use of reserves**

10.3.1 The MTFS proposes a minimum level of reserves of £1.5m. The remaining level of reserves has been earmarked for future use.

10.3.2 It is important to review the use of earmarked reserves regularly to ensure they meet the needs and priorities of the Council.

11 **Draft Treasury Management Strategy 2015/16**

11.1 The CIPFA Code of Practice on Treasury Management, adopted by the Council in April 2002, requires the preparation of an annual Treasury Management Strategy Statement (TMSS). The 2003 Prudential Code for Capital Finance in Local Authorities introduced requirements on how capital spending plans should be considered when determining the Council's Treasury Management Strategy for the next four financial years.

11.2 The Prudential Code requires the Council to set a number of Prudential Indicators, which replace the borrowing/variable interest limits previously determined as part of the TMSS, and also extend the period covered from one to three years. The report incorporates the indicators which should be considered when determining the council's Treasury Management Strategy for the next four years.

- 11.3 The Treasury Management Strategy needs to consider the following four matters:
- The institutions the Council will invest money with
 - The types of investment instruments that will be used
 - The limits that are placed on either the institution or the instrument used
 - The underlying economic environment that will affect the types of investment the Council will use and the duration of these investments

- 11.4 The Council's Draft Treasury Management Strategy will be presented with the final budget in February 2015.

12 MTFS and Budget Setting Timetable (Next Steps)

- 12.1 The key to developing and delivering a stable and sustainable MTFS is to engage with all members to ensure the best interests of the Council are taken into account when the Budget is set by Full Council on 25 February 2015. This engagement will be through a forthcoming Member Briefing session, which will raise awareness of the financial position facing the Council and set out the strategic financial choices open to it.

- 12.2 The next steps for setting and approving the MTFS & Budget are shown below:

Date	Task	Who?
Oct - Nov 2014	Update draft MTFS (<i>update assumptions, refresh budget pressures, identify savings proposals, challenge & refine options</i>)	CMT
1 Dec 2014	Draft MTFS & Budget	Fin Sub Ctte
8 Dec 2014	Draft MTFS & Budget	P&R Ctte
Dec 2014	Provisional Funding Settlement	Government
Dec 2014	Refine & finalise MTFS & budget plans	CMT
15 Dec 2014	Draft MTFS & Budget	Council
Jan 2015	Member Budget Briefing	All Councillors
Jan 2015	Refine & finalise MTFS & budget plans	CMT
Jan/Feb 2015	Final Funding Settlement	Government
9 Feb 2015	Recommend Budget & MTFS to Policy & Resources Ctte	Fin Sub Ctte
16 Feb 2015	Recommend Budget & MTFS to Council	P&R Ctte
25 Feb 2015	Approve MTFS, Budget & Council Tax	Council

13 Equality and Diversity Implications

- 13.1 There are no equality and diversity implications arising from this report. Separate assessments will be produced as savings plans are developed over the period of the MTFS to help deliver the savings yet to be identified.

14 Legal Implications

- 14.1 There are no known legal implications arising from this report.

15 Risk Management

- 15.1 The risk register includes the corporate risk of "failure to develop and deliver sustainable budgets (Risk 257)". The purpose of the MTFS is to ensure that this risk is anticipated and addressed.

- 15.2 The key risks relating to the MTFS are:
- Major uncertainty regarding future Government funding levels
 - Uncertainty around levels of growth, nationally and locally
 - Inability to deliver cost reduction / income generation programme

16 Financial Implications

- 16.1 This report is of a financial nature and the implications are set out within the report

17 Corporate Outcomes

17.1 This report links to the following Corporate Outcomes:


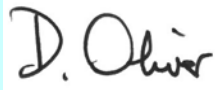
- Good Quality of Life
Ensuring the financial sustainability of the Council to maintain and improve upon service levels contributing to better quality of life
- Effective Management
MTFS allows the Council to manage and review its financial performance. Financial forecasting and horizon scanning contributes to the effective management of the Council
- Good Value for Money
The MTFS ensures that services provided are lowest possible cost and high quality and strive to continually improve
- High Quality Service Delivery
Ensuring financial sustainability via the MTFS allows high quality services to continue to be delivered
- Strong Community Leadership
The MTFS represents the financial interpretation of the Council's strategic priorities; this contributes to strong community leadership

18 Recommendations

18.1 Finance Sub Committee is recommended to note the contents of this report, specifically the:

- Draft Medium Term Financial Strategy (MTFS) & Plan (MFTP)
- Draft Revenue Budget 2015/16
- Draft Capital Programme for 2015/16-2024/25 (subject to the on-going review of schemes within that programme)

(Reason: To ensure that the Sub-Committee is aware of the forecast financial position; so that in due course the Council complies with its constitution in setting its Budget)

Legal	Power:				
	Other considerations:				
Background Papers:					
Person Originating Report: Glenn Hammons, Chief Finance Officer & Section 151 Officer, ☎ 01832 742267 ✉ ghammons@east-northamptonshire.gov.uk					
Date:					
CFO 21/11/14		MO		CX 21/11/14	

Medium Term Financial Strategy 2015/16 to 2018/19

2014/15 Revised Budget £		2015/16 Draft Budget £	2016/17 Indicative Budget £	2017/18 Indicative Budget £	2018/19 Indicative Budget £
1,792,657	Customer and Community Services	1,293,124	1,313,173	1,158,612	1,179,449
2,734,280	Environmental Services	2,834,260	2,824,906	2,829,706	2,834,666
961,640	Information Technology	942,840	957,502	972,420	987,598
1,751,850	Resources and Organisational Development	1,796,427	1,820,770	1,845,569	1,870,834
1,178,850	Planning Services	1,229,510	1,244,363	1,259,478	1,274,861
1,225,600	Corporate and Democratic Core	1,062,630	1,256,971	1,351,458	1,446,095
9,644,877	Total Service Expenditure	9,158,791	9,417,684	9,417,243	9,593,503
	Other Expenditure/Adjustments				
59,800	Transfer to Earmarked Reserves	380,198	232,582	502,029	290,153
609,927	Community Projects (New Homes Bonus)	915,832	1,117,052	1,185,655	1,185,655
(25,536)	Net Interest Received / Paid	(78,000)	(108,000)	(138,000)	(168,000)
644,191	Total Other Adjustments	1,218,030	1,241,634	1,549,684	1,307,808
10,289,068	Total Budget Requirement	10,376,821	10,659,318	10,966,927	10,901,311
	Sources of Funding				
(33,750)	Transfer From Collection Fund	(180,000)	0	0	0
(1,524,817)	New Homes Bonus	(1,831,663)	(2,234,103)	(2,371,310)	(2,371,310)
(38,692)	Council Tax Freeze Grant 2014/15		<i>Rolled into baseline (RSG)</i>		
(2,438,759)	Revenue Support Grant	(1,694,655)	(1,270,992)	(953,244)	(714,933)
(2,146,279)	Business Rates Retention Baseline	(2,205,518)	(2,271,684)	(2,339,834)	(2,410,029)
(359,552)	Business Rates Retention Growth	(499,552)	(819,552)	(1,139,552)	(1,139,552)
(156,558)	Business Rates Retention Pooling Benefit	(330,558)	(330,558)	(330,558)	(330,558)
(84,875)	Other income grants	0	0	0	0
(6,783,283)	Total Funding	(6,741,948)	(6,926,889)	(7,134,499)	(6,966,383)
3,505,785	Amount to be met from Council Tax	3,634,873	3,732,429	3,832,428	3,934,928
28,353	Council Tax Base	29,397	29,597	29,797	29,997
123.65	Equivalent Band D Tax	123.65	126.11	128.62	131.18
	% change in Council Tax	0.00%	1.99%	1.99%	1.99%

Appendix 2 - Medium Term Financial Plan

Savings	2015/16 £000	2016/17 £000	2017/18 £000
Remaining Funding Gap	0	(150)	(400)
<u>Cost Reduction & Efficiency</u>			
<i>Reduce Leisure Subsidy</i>	0	0	175
<i>Business Transformation Projects - target</i>	50	100	200
<i>Contract Review – target saving of 10% on renewal of contracts. Not including waste contract (see note)</i>	100	110	110
<i>Asset Management Review – to be finalised</i>	tbc	tbc	tbc
<u>Revenue Generation</u>			
Fees & Charges Review	tbc	tbc	tbc
Total Savings	150	210	485
(Remaining Funding Gap) / Headroom for Investment	150	60	85

Note: Expected pressure of £500k in 2017/18 due to renewal of Waste contract. The assumption is that this cost will be mitigated within the Waste service.

Service Area	Change	Technical Adjustment	Salary Incr./ (Decr.)	Pay Inflation	Contract Inflation	Service Pressure	Efficiency	Additional Income	Service Reduction	Net Change
		£000	£000	£000	£000	£000	£000	£000	£000	£000
Customer & Community Services	Staff Budget Efficiencies		(104)							(104)
	Contributions to Community Safety					18				18
	Housing Benefit Changes					87				87
	Council tax Income							(45)		(45)
	Land Charges							(15)		(15)
	Leisure subsidy						(150)			(150)
	Technical and Other Changes less than £10k	(285)					16		(7)	(290)
Environmental Services	Staff Budget Changes		15							15
	Net increase in Garden Waste Club memberships					89		(83)		6
	Increase in Contractual Charges (Waste/Street Cleansing)				34					34
	Increase on waste income							(26)		(26)
	County Council recycling credits					34				34
	Revenue contribution to Capital					32				32
	Technical and Other Changes less than £10k	10					14	(10)	(3)	(5)
Information Technology	Staff Budget Efficiencies		(25)							(25)
	Increased web functionality, sharepoint and licensing unit					20				20
	Technical and Other Changes less than £10k				3	4		(10)	(6)	(9)
Resources and Organisational Development	Staff Budget Changes		129							129
	Service Charges							(22)		(22)
	Sale Of Oundle Car Park & Depot						(44)			(44)
	Technical and Other Changes less than £10k	(23)			(3)	20	(13)			(19)
Head of Planning Services	Staff Budget Changes		116							116
	Increased Planning Fees							(65)		(65)
	Technical and Other Changes less than £10k	14			4				(19)	(1)
Corporate and Democratic	Staff Budget Changes		47							47
	Reduction in External Audit Fees						(34)			(34)
	Vacancy factor		(200)							(200)
	Technical and Other Changes less than £10k	(0)			14	10	(3)			21
Total Revenue Budget Changes		(284)	(23)	0	52	343	(268)	(269)	(37)	(486)

East Northamptonshire Council Draft Capital Programme 2015/16 - 2024/25

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Total 2015/16 to 2024/25
Approved Capital Programme	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£	£	£	£	£	£	£
Housing Projects	500,000	-	-	-	-	-	-	-	-	-	500,000
Leisure and Tourism Projects	71,000	-	-	-	-	-	-	-	-	-	71,000
Environment Projects	240,000	-	-	-	-	-	-	-	-	-	240,000
Total	811,000	-	-	-	-	-	-	-	-	-	811,000

Approved Capital Project

Disabled Facilities Grants	500,000	-	-	-	-	-	-	-	-	-	500,000
Purchase of Wheeled Bins	240,000	-	-	-	-	-	-	-	-	-	240,000
Stanwick Lakes - Infrastructure	71,000	-	-	-	-	-	-	-	-	-	71,000
Total	811,000	-	-	-	-	-	-	-	-	-	811,000

Development Pool	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Total 2015/16 to 2023/24
	£	£	£	£	£	£	£	£	£	£	£
Housing Projects	-	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	4,500,000
Leisure and Tourism Projects	25,000	150,000	40,000	-	-	-	-	-	20,000	-	235,000
Environment Projects	-	200,000	200,000	-	16,600	-	-	-	-	-	416,600
Central Services Projects	60,000	30,000	-	-	24,000	20,000	30,000	-	-	-	164,000
Corporate Systems	668,000	398,000	650,000	312,000	272,000	512,000	337,000	462,000	182,000	182,000	3,975,000
Essential Property Maintenance	120,000	169,000	115,000	375,000	40,000	40,000	-	10,000	10,000	-	879,000
Total	873,000	1,447,000	1,505,000	1,187,000	852,600	1,072,000	867,000	972,000	712,000	682,000	10,169,600

Development Pool

Disabled Facilities Grants		500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	4,500,000
Contractual											
Stanwick Lakes - Infrastructure		69,000	75,000	65,000							209,000
Purchase of Wheeled Bins		200,000	200,000								400,000
Business Critical											
AMP - Pemberton Centre		150,000	40,000						10,000		200,000
AMP - Nene Centre									10,000		10,000
AMP - Rushden Centre			50,000			30,000					80,000
AMP - East Northamptonshire House	95,000	10,000	10,000	10,000	30,000	10,000			10,000		175,000
AMP - Industrial Units	25,000	30,000	30,000	300,000							385,000
AMP - Polebrook Cemeteries			10,000		10,000			10,000			30,000
Splash Pool - Emergency & Improvement Plan	25,000										25,000
Print Room Asset Management	20,000	30,000			24,000	20,000	30,000				124,000
Replacement Dog Warden Vans					16,600						16,600
Replacement Hardware (PC'S, Monitors & Laptops)	30,000	30,000	23,000	35,000	35,000	15,000	15,000	15,000	15,000	15,000	228,000
Data Infrastructure Equipment	64,000	64,000	10,000	10,000	10,000	100,000	10,000	10,000	10,000	10,000	298,000
Security Systems/GovConnect	16,000	5,000	10,000	10,000	10,000	10,000	10,000	10,000			81,000
Licences	119,000	119,000	137,000	137,000	137,000	137,000	137,000	137,000	137,000	137,000	1,334,000
DR/Business Continuity							40,000	40,000			80,000
Replacement Printers & Scanners	20,000	15,000	5,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	110,000
Replacement Servers	10,000	10,000	80,000	10,000	10,000	10,000	10,000	80,000	10,000	10,000	240,000
Upgrade for Uninterrupted Power Supply to server room (UPS for L12)			25,000								25,000
Storage/Replacement SAN		50,000	15,000	20,000	10,000	10,000	60,000	15,000			180,000
Upgrade Public Access and TLC systems (CAPS Solutions/ERMS)	40,000	10,000	10,000	20,000	10,000	200,000	10,000	10,000			310,000
CRM Upgrades	70,000		300,000								370,000
Telephone System	30,000		10,000		10,000		10,000				60,000
ESRI - GIS Upgrade		70,000			10,000			70,000			150,000
Oracle Licensing & Physical servers	50,000			40,000				40,000			130,000
Oracle Development	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000			80,000
Mobile working	25,000										25,000
Exchange 2013	30,000										30,000
Intranet	36,000										36,000
Server 2012	30,000										30,000
SQL Consolidation	28,000										28,000
Sharepoint development	30,000										30,000
NDL development	20,000										20,000
Revenues and Benefits Upgrade	10,000	15,000	15,000	10,000	10,000	10,000	15,000	15,000			100,000
Invest to Save											
Replacement Finance System	40,000										40,000
Total	873,000	1,447,000	1,505,000	1,187,000	852,600	1,072,000	867,000	972,000	712,000	682,000	10,169,600

Total Approved Programme and Development Pool	1,684,000	1,447,000	1,505,000	1,187,000	852,600	1,072,000	867,000	972,000	712,000	682,000	10,980,600
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