East Northamptonshire Council

Policy and Resources Committee
9 February 2015

Medium Term Financial Strategy and Plan

Purpose of report

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

Attachment(s):

Appendix 1 – MTFS Summary 2015/16 – 2018/19
Appendix 2 – Revenue Budget Changes 2015/16
Appendix 3 – Capital Programme 2015/16 – 2024/25
Appendix 4 – Treasury Management Strategy
Appendix 5 – Fees and Charges 2015/16

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 and updated at Finance Sub Committee in December 2014.

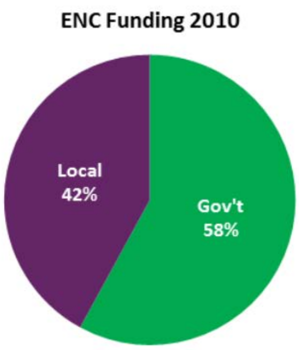
1.2. The MTFS 2014/15 to 2017/18 was formulated during a difficult financial settlement, which was designed to address the challenging national financial position. There were a significant number of policy changes which had to be addressed and incorporated into the financial forecast.

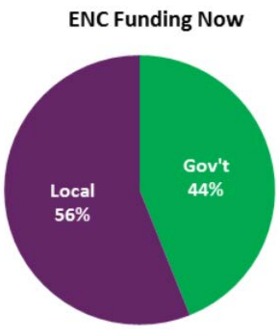
1.3. Positive signs are emerging from the large amount of data and intelligence surrounding the UK economy. However, there remains some uncertainty over the outlook for the UK and this will continue to put pressure on Local Government finances over the medium term.

1.4. In October 2010 the Government announced its 2010 Spending Review, which set budgets for Government departments up to 2014/15. As part of the 2014/15 settlement, indicative figures were announced for 2015/16.

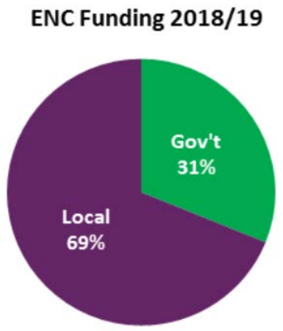
1.5. Following the Chancellor's Autumn Statement, the provisional local government finance settlement figures were announced on 18th December 2014.

1.6. 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. Funding from Central Government refers to grants and funding received directly from the government, such as Revenue Support Grant. Funding raised locally refers to funding generated directly within the district such as Council Tax, New Homes Bonus and Business Rates. This can be increased by stimulating economic growth within the district.





1.7. 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. By the end of MTFS period in 2018/19 it is forecast that 70% of the Council's funding will be raised locally, with the remainder coming from Government.



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 being able to continue 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. In the shorter term the General Election in May 2015 may present uncertainties depending upon the new Government's approach to austerity and views on resource allocation both to and within local government. 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 their future life cycle costs 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 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 with feature a different configuration of councils. This new arrangement is expected to increase the benefit to the Council by a further £175k, to £330k.

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 was approved by Council in December. The scheme remains unchanged for 2015/16, and remains 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 have been transferred to the Department for Work and Pensions under the transfer of responsibility for the Single Fraud Investigation Service. This took 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. 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 £400k a year 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.

3.5.4. Countywide, work continues to develop a framework for contractors with the aim of driving down the unit price of the works.

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 further reductions in Government funding of 10% a year are expected, in line with independent forecasts.

4. 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 MTFS 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 MTFS 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"

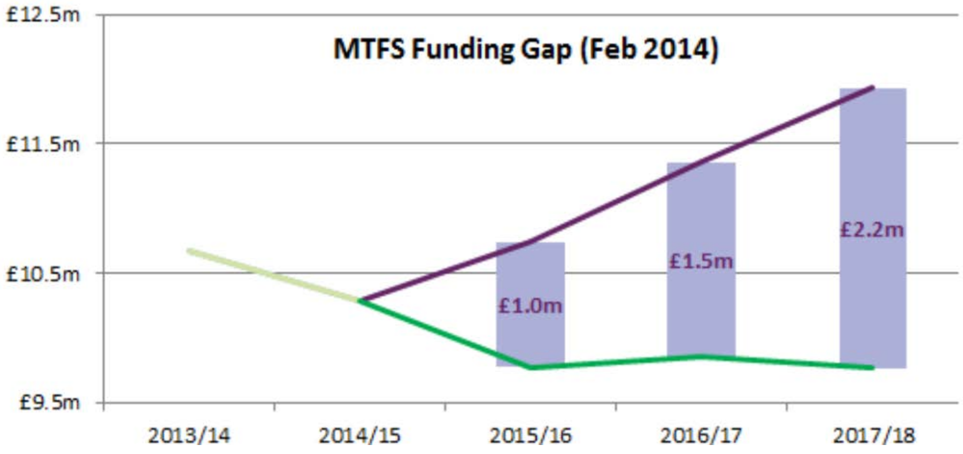
4.3. The MTFS and Budget 2015/16 set out in this report have been developed to address the financial challenges identified above. The MTFS includes our capital spending plans as these have a direct and sometimes significant impact on our revenue expenditure.

4.4. The MTFS includes:

- 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 MTFS 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 projected funding gap over the medium term as at February 2014.



5. Review of Assumptions

5.1 In order to address the projected 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 that 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	• 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	• It is assumed that there is no increase to Council tax for 2015/16 with increases of 1.99% each year thereafter. • Council tax is assumed to be £123.65 for 2015/16 • Lowest council tax in the county
Government Funding	• 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% a year over the medium term
Capital Programme	• 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	• 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	**29**

5.4 ***Employee Costs***

5.4.1 The national pay negotiations were recently concluded between Local Government Employers and the trade unions. The final agreement was for a 2.2% increase over the period from January 2015 to March 2016. This 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% (£200k) 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 a pressure of around £84k each year over the medium term will arise 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 2015/16, a thorough review of all fees and charges is being undertaken to understand what increases can be put in place that ensure that demand is reflected in the charge and costs are fully recovered.

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. Further to previous decisions of the Council, 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***

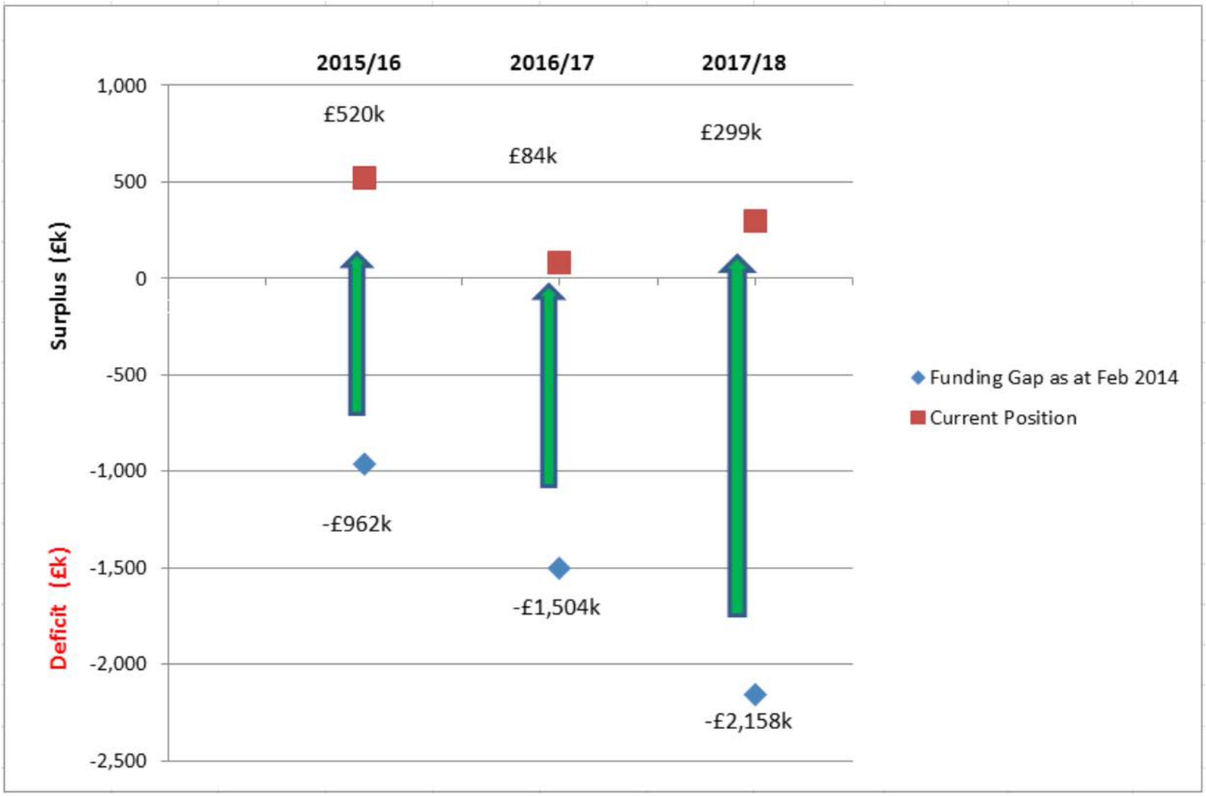
5.13.1 The MTFS assumes a reduction in government funding of 10% per annum. There is some uncertainty over this figure due to the forthcoming general election; however, austerity is expected to continue, and a range of 7% - 15% has been considered. The MTFS has assumed 10% as it falls in the middle of this range. The Chancellor's autumn statement confirmed the local government settlement figures for 2015/16. There is minimal change from the figures that had been forecast. A review of the structure of business rates was announced. This will report back to government by the Budget 2016. Some capital schemes were announced including work on the Chowns Mill roundabout, and a feasibility study on duelling the remainder of theA45 between Raunds and Thrapston.

5.14 ***Bridging the Projected Funding Gap and moving towards a Medium Term Financial Plan***

5.14.1 The effect of the changes outlined above has been to bridge the projected funding gap within the MTFS, as outlined in paragraph 4.6. This has also created some headroom over and above that 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.*

	2015/16 £000	2016/17 £000	2017/18 £000
Starting position - Projected funding gap as at Feb 2014	962	1,504	2,158
Pensions deficit	0	84	168
National Insurance	0	100	100
Underspends identified through 14/15 monitoring	-480	-480	-480
Vacancy factor	-200	-200	-200
Business Rates – Pooling Benefit & updated baseline	-156	-221	-289
Business Rates – Rushden Lakes & Other growth	-140	-260	-480
Reducing leisure subsidy	-150	-150	-325
Effect of increased Council Tax Base	-104	-106	-108
New Homes Bonus	-93	0	0
Pay awards – change to assumption	-60	-120	-180
Remove general inflation	-40	-80	-120
Council Tax Freeze Grant 2015/16	-39	0	0
Contractual inflation – change to assumption	-35	-70	-105
Updated forecast for interest received	-30	-107	-266
Committee decisions	-15	-29	-29
Revenue Support Grant - updated figure based on settlement	-15	-11	-8
Other movements	75	62	-135
Updated position - Surplus	**-520**	**-84**	**-299**

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



6 Medium Term Financial Strategy (MTFS)

6.1 The MTFS for 2015/16 – 2018/19 is shown in **Appendix 1**.

7 Medium Term Financial Plan (MTFP)

7.1 Work is continuing on proposals to create further headroom over and above the projected surpluses shown above to create a *Medium Term Financial Plan.*

7.2 Items that are being looked at include:

- Waste Management
- ICT
- Reducing leisure subsidy
- Business Transformation
- Contract Review
- Fees and charges
- Asset Management review

8 Risks

8.1 *Government Funding*

8.1.1 The MTFS assumes reductions in Government funding of 10% per annum. Funding is predicted by independent analysts to reduce by between 7%-15% each year over the medium term, although the General Election in May adds some uncertainty in trying to predict future levels of Government funding.

8.1.2 The provisional Local Government Finance Settlement 2015/16 was announced on 18th December and the figures from this have been incorporated into the budget.

8.1.3 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 in 2015/16, reducing thereafter in line with cuts in government funding.

8.2 ***Waste Cost Mitigation***

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

8.3 ***Pressures from Other Public Sector Bodies***

8.3.1 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 cannot be quantified until the County Council approves its final budget and the Northamptonshire Better Care Fund is signed off.

8.4 ***Business Rates***

8.4.1 Changes to businesses' circumstances can affect the income due to the Council from Business Rates. Changes that can occur 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.

9 **Revenue Budget 2015/16**

8.1 ***Revenue Outturn 2014/15***

9.1.1 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.

9.1.2 The 2014/15 budget monitoring is currently showing an underspend of £1,052k. 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.

9.1.3 At present the £1,052k underspend will form a contribution to revenue reserves at the end of the financial year.

9.2 ***Revenue Budget 2015/16***

9.2.1 The Council needs to spend £9.1m in 2015/16 to maintain current services. A summary of the revenue budget for 2015/16 is set out below:

2014/15 £		2015/16 £
1,792,657	Customer and Community Services	1,326,636
2,734,280	Environmental Services	2,848,440
961,640	Information Technology	940,540
1,751,850	Resources and Organisational Development	1,812,357
1,178,850	Planning Services	1,245,820
1,225,600	Corporate and Democratic Core	973,390
9,644,877	**Total Net Expenditure**	**9,147,183**
59,800	Transfer to Earmarked Reserves	520,308
609,927	Community Projects	1,008,635
(25,536)	Net Interest (Received) / Paid	(78,000)
10,289,068	**Budget Requirement**	**10,598,126**

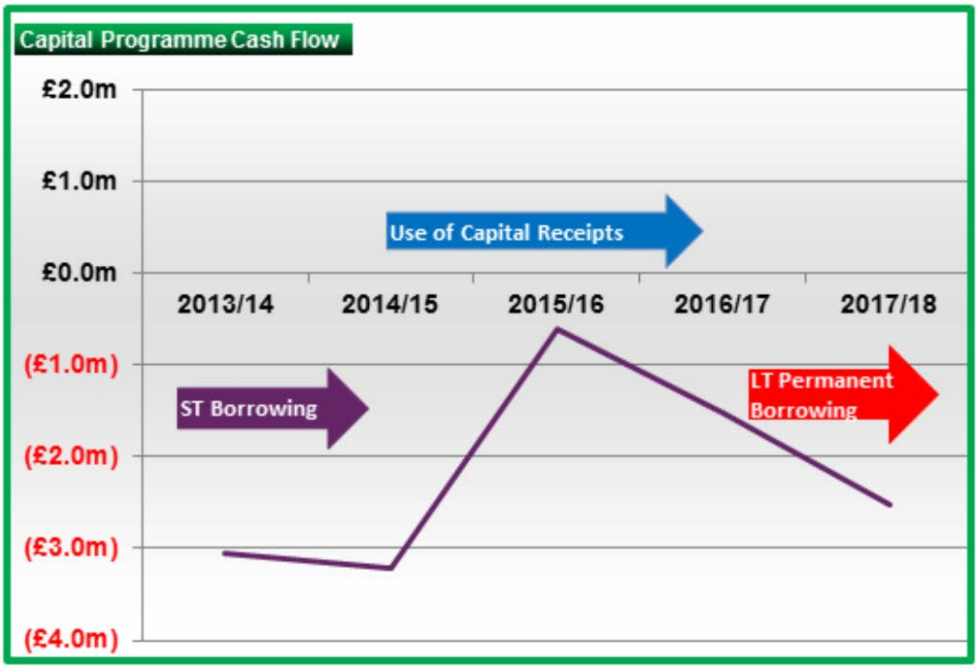
9.2.2 The total net service expenditure in the revenue budget for 2015/16 is £498k lower than the approved budget 2014/15. This is due to the following changes:

	£k
Revenue Budget Net Service Expenditure 2014/15	9,645
Service Pressures and Budget Increases	76
Savings and Additional Income (excl. Government Funding and Council Tax)	(574)
Revenue Budget Net Service Expenditure 2014/15	**9,147**

9.2.3 A full analysis of the revenue budget changes is shown at **Appendix 2**.

10 Draft Capital Programme 2015/16 to 2024/25

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

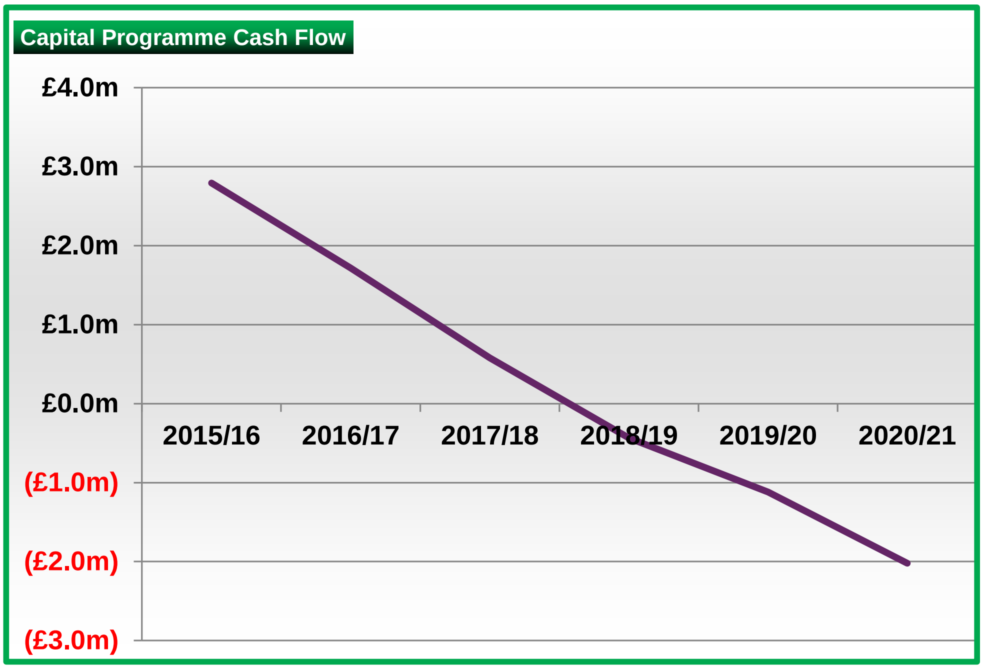


10.2 For 2014/15 the capital programme has been split into two sections – the approved capital programme, for those schemes that have specific funding which has been released; and the development pool of proposed schemes. These schemes would remain within the development pool until such time as funding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

10.3 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

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

10.5 As a result, the latest position on the capital cash flow is now as follows. A one-off technical accounting adjustment of £2.4m identified during the closure of the 13/14 accounts has been used to finance capital expenditure.



10.6 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 2018/19 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.

10.7 ***Capital Outturn 2014/15***

10.7.1 The capital programme 2014/15 is currently forecasting a variance of £3k.

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

	2014/15
Approved Capital Programme	£1,589,140
Total Expenditure	**£1,589,140**
Funded by:	
Wheeled bins – RCCO	£228,500
DFG - 2nd homes from NCC	£220,412
DFG - Capital Grant	£178,107
Capital Reserves	£962,121
Total Funding	**£1,589,140**

10.7.3 As set out in the quarter 3 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.

10.7.4 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.

10.8 *Capital Programme 2015/16 and beyond*

10.8.1 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.

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

10.8.3 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 3**.

10.9 *Revised Capital Position*

10.9.1 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		
Total Funding	1,684,000		

10.9.2 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.

11 Reserves and Balances Strategy

11.1 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 MTFP.

11.2 *Minimum Level of Reserves*

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

11.2.2 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

11.2.3 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

11.2.4 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.

11.2.5 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	*2,832*	*3,082*	*3,082*	*3,082*	*3,082*
Budgeted contribution to reserves	*0*	*520*	*805*	*1,403*	*1,837*
Regeneration Reserve	*480*	*480*	*480*	*480*	*480*
Planning Reserve	*63*	*0*	*0*	*0*	*0*
Land Charges	*189*	*0*	*0*	*0*	*0*
Community Projects	*603*	*0*	*0*	*0*	*0*
Elections Reserve	*120*	*120*	*30*	*60*	*90*
Carry forwards 2013/14	*95*	*95*	*95*	*95*	*95*
Insurance Reserve	*100*	*100*	*100*	*100*	*100*
Capital Financing	*387*	*387*	*387*	*387*	*387*
Environment (HI 4 EM)	*40*	*0*	*0*	*0*	*0*
Empty Homes	*24*	*0*	*0*	*0*	*0*
Revenue Grants Reserve	*78*	*78*	*78*	*78*	*78*
BRR Reserve	*350*	*350*	*350*	*350*	*350*
Future Contract Procurement	*200*	*200*	*200*	*200*	*200*
Earmarked Revenue Reserves	**5,561**	**5,412**	**5,607**	**6,235**	**6,699**
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	**7,311**	**6,912**	**7,107**	**7,735**	**8,199**
Estimated Outturn Position as at 31/12/14 *(Subject to change)*	0	1,052	1,052	1,052	1,052
Total Estimated Contribution	**0**	**1,052**	**1,052**	**1,052**	**1,052**
Capital Reserves	2,975	2,013	699	0	0
Capital Receipts Reserve	0	1,784	2,094	1,716	581
Total Capital Reserves	**2,975**	**3,797**	**2,793**	**1,716**	**581**
Total Reserves	**10,286**	**11,762**	**10,952**	**10,504**	**9,833**

11.2.6 The table above assumes that all capital schemes within the development pool would be moved to the approved pool in each year. Capital reserves would be utilised by 2018/19, as shown in the chart above paragraph 10.6.

11.3 *Future use of reserves*

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

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

12 Draft Treasury Management Strategy 2015/16

12.1 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.

12.2 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.

12.3 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

12.4 The Council's Treasury Management Strategy is set out in **Appendix 4**.

12.5 The TMSS sets out the Council's Authorised Limits and Operational Boundaries and these are set out within Appendix A of the Treasury Management Strategy.

12.6 The table in Appendix D of the TMSS sets out the Council's investment limits for each counterparty, dependent on their credit rating and the type of investment.

13 Fees and Charges

12.1 As set out in section 5.7, a full review of fees and charges is being undertaken. The MTFS assumes increases in line with the Retail Price Index (RPI).

12.2 A document listing all fees and charges applicable to 2015/16 is set out in **Appendix 5**.

14 Equality and Diversity Implications

14.1 There are no equality and diversity implications arising from this report.

15 Legal Implications

15.1 There are no known legal implications arising from this report.

16 Risk Management

16.1 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.

16.2 The key risks relating to the MTFS are:

- Delivery of an affordable capital programme with more certainty over funding sources over the medium term
- Major uncertainty regarding future Government funding levels
- Uncertainty around levels of growth, nationally and locally
- Inability to deliver cost reduction / income generation programme

17 Financial Implications

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

18 Corporate Outcomes

18.1 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

19 Recommendations

19.1 TO POLICY AND RESOURCES COMMITTEE:-

That the Committee recommend the Council to invite the Leader of the Council to propose the approval of the following as part of the budget setting process:

- Medium Term Financial Strategy (MTFS)
- Revenue Budget 2015/16
- Approved Capital Programme for 2015/16 (Development Pool items are subject to the review set out within the report)
- Minimum level of Reserves and Earmarked Reserves
- Treasury Management Strategy
- Fees and Charges

(Reason: To ensure that in due course the Council complies with its constitution in setting its Budget)

19.2 TO COUNCIL

(*To be proposed by the Leader of the Council, along with the proposal for the Council Tax resolution for 2015-16*)

That, subject to the determination of the level of Council Tax for the 2015-16 financial year, consideration be given to the recommendation of the Policy and Resources Committee, detailed within the minutes of the meeting held on 16 February 2015, in respect of approving the following as part of the budget setting process:

- Medium Term Financial Strategy (MTFS)
- Revenue Budget 2015/16
- Approved Capital Programme for 2015/16 (Development Pool items are subject to the review set out within the report)
- Minimum level of Reserves and Earmarked Reserves
- Treasury Management Strategy
- Fees and Charges

(Reason: To ensure that the Council complies with its constitution in setting its Budget)

<table>
<tr><td rowspan="2">Legal</td><td colspan="5">Power:</td></tr>
<tr><td colspan="5">Other considerations:</td></tr>
<tr><td colspan="6">Background Papers:</td></tr>
<tr><td colspan="6">Person Originating Report: Glenn Hammons, Chief Finance Officer & Section 151 Officer,
☎ 01832 742267 ✉ ghammons@east-northamptonshire.gov.uk</td></tr>
<tr><td colspan="6">Date: 28/01/15</td></tr>
<tr><td>CFO</td><td></td><td>MO</td><td></td><td>CX</td><td></td></tr>
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