



Finance Sub-Committee 17 December 2015

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) 2016/17 to 2019/20, outline the Draft Revenue Budget 2016/17, Draft Capital Programme 2016/17 to 2025/26 and Draft Treasury Management Strategy 2016/17.

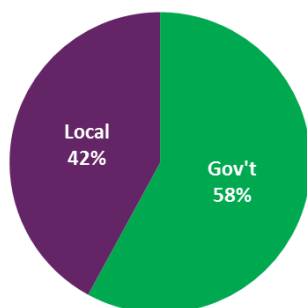
Attachment(s):

- Appendix 1 – Draft MTFS Summary 2016/17 – 2019/20
- Appendix 2 – Draft Revenue Budget Changes – 2016/17
- Appendix 3 – Draft Capital Programme 2016/17 – 2025/26

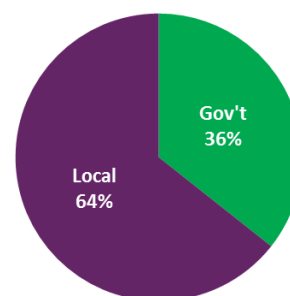
1. Overview and context

- 1.1. This report refreshes the Medium Term Financial Strategy 2015/16 to 2018/19 that was approved by Council in February 2015.
- 1.2. The MTFS 2016/17 to 2019/20 has been formulated since the announcement of the Spending Review and Autumn Statement 2015, which continues to set out how the Government will address the ongoing national financial position and deliver savings of £20bn by 2020. There are a significant number of policy changes which need to be addressed and incorporated into the financial forecast. Further detail is likely to be announced in the Local Government Finance Settlement for the council in the coming weeks. The council anticipates that further announcements will also be made in the coming months. This means that there remains considerable uncertainty surrounding the amount of grant funding the council will receive during this spending review period.
- 1.3. Positive signs continue to emerge from the large amount of data and intelligence surrounding the UK economy. This has led to the better forecasts which the Chancellor has incorporated into the Spending Review announcements. However, there remains some uncertainty over the outlook for the UK in the midst of projections for subdued inflation rates, anticipation that world growth will become weaker and interest rates will continue to remain low. This will continue to put pressure on Local Government finances over the medium term.
- 1.4. In November 2015 the Government announced its Spending Review and Autumn Statement 2015 which set budgets for Government departments up to 2019/20.
- 1.5. Following this, the council awaits the provisional local government finance settlement figures which are due to be announced in the coming weeks.
- 1.6. Since 2010 the funding to councils has changed significantly. 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.

ENC Funding 2010

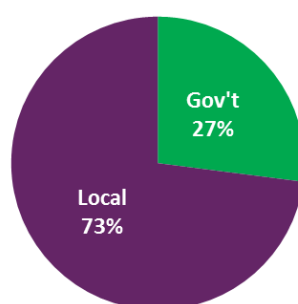


ENC Funding Now



- 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 2019/20 it is forecast that over 70% of the council's funding will be raised locally, with the remainder coming from Government. This assumption is based on the council's current position but following announcements in the Spending Review this means that there will be less government funding in future years than shown in the graph below.

ENC Funding 2019/20



2. Long Term Financial Position

- 2.1. In the midst of short term uncertainty, the biggest risk facing the council is in assessing the financial implications of proposed changes to Local Government funding over the longer term and being able to continue to provide services at current levels.
- 2.2. Since the Spending Review in 2010, the public sector has seen unprecedented reductions in funding and the recent Spending Review announced on 25 November 2015 has indicated that significant reductions in funding to Local Government are set to continue. Further details on these announcements are set out in Section 3 of this report. The major uncertainties and changes are going to impact Local Government into the longer 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, the council still has some significant risks surrounding the future of the 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 has been recently 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. Corporate Plan

3.1. The council remains ambitious to deliver growth in the District despite the financial constraints under which it operates and has set out a number of key priorities and outcomes for the next four years on which to focus to ensure that the District can thrive and prosper. These reflect a realistic balance between what the council would like to do and what is affordable but also provide a basis for the council to plan its work and allocate its resources accordingly.

3.2. The council recognises that these ambitions are challenging within an environment where resources are limited and has set out the following outcomes on which to focus over the next four years in order to achieve this vision:

Improvements for the community	A good quality of life where the district will be:	Priority outcomes
	Prosperous	Regeneration and economic development
	Sustainable	Sustainable development High quality built environment
	Clean	Effective management of waste Clean streets
	Healthy	High levels of participation in active recreation Improved housing Good public health
	Safe	Low levels of crime and anti-social behaviour
	Council services which provide good value for money	Financial stability Good value for money
Effective processes	High quality service delivery	Customer-focused services
	Effective partnership working	Strong strategic partnerships
	Effective management	Committed staff Good use of resources Legal compliance
How we learn and grow	Knowledge of our customers and communities	Customer and community insight
	Councillors and staff with the right knowledge, skills and behaviours	Continuous development Appropriate behaviours

3.3. These outcomes form the basis of the council's Corporate Plan and are linked to setting the MTFs. The links to the corporate outcomes are set out in section 17.

4. Government Funding and Policy Changes

4.1. The changes to local government funding referred to in section 1 of this report are set out in more detail below.

4.2. *Business Rates Retention*

4.2.1. The Business Rate Retention Scheme was introduced in April 2013 with a key aim to incentivise local business growth. The council currently works with other councils across Northamptonshire to maximise the benefits of a pooling arrangement across the county. The current pooling arrangement is expected to increase the benefit to the council by £330k.

4.2.2. It was announced in the Spending Review and Autumn Statement 2015 that by 2020 local government will retain 100% of the business rate revenues it receives in order to fund local services.

4.2.3. The government also announced that a consultation is expected in 2016 about changes to the local government finance system in preparation for the move to 100% business rates retention. The proposals will consider the transfer of additional responsibilities to councils which are aimed at driving local economic growth and supporting the community. The council will consider the implications of these reforms and any risks or assumptions will be reviewed as necessary going forward as further detail is released.

4.3. *Local Council Tax Support Scheme*

4.3.1. The Local Council Tax Support Scheme was introduced in March 2013 after the Welfare Reform Act 2012 passed the responsibility to local councils to operate a local scheme which replaced the national council tax benefit scheme that was previously in place. At that time the Government also reduced the funding for the scheme by 10% and the expectation was that this would be offset by reductions in expenditure.

4.3.2. The scheme currently adopted by East Northamptonshire allows for working age customers to pay for at least 12.5% of their council tax liability. The council has been able to maintain the rate at this level in previous years whilst the scheme has been self financing. However, with the welfare reform changes currently being introduced, the council has reviewed the financial impact to the scheme and is required to increase the rate in order for the scheme to continue to be self financing.

4.3.3. The council has recently started a consultation to the public with regard to an increase from 12.5% to 20% of the council tax liability, which will help to reduce some of the pressures arising from the scheme. However, in the midst of the uncertainty faced by the council, it is currently anticipated that there will still be a shortfall in future years which the council will need to address. The council will continue to monitor and assess the outcome of any changes and the potential financial impact on the scheme in future years.

4.4. *New Homes Bonus*

4.4.1. The Chancellor also announced changes to the New Homes Bonus Scheme within the Spending Review and Autumn Statement 2015. The government is due to consult on reforms to the scheme which will consider further the incentive which rewards communities for additional homes as well as reducing the length of payments from six to four years. They will also consult on a preferred option for savings of £800 million which can be used towards social care. It is clear that the scheme will face significant reductions which will have a financial impact on the council. However, most of the uncertainty remains around the timing and rate that

these reductions will be implemented. The Finance Settlement to be announced in December will provide some further clarity.

4.5. ***Welfare Reform***

4.5.1. 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 by the council.

4.5.2. 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 a number of 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 currently has two residents in receipt of Universal Credit.

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

4.6.1. Funding to help 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.

4.6.2. As part of the Spending Review and Autumn Statement 2015, the government announced a further £500m by 2019/20 for the DFGs. This funding is provided by the Department of Health (DH) as part of the Better Care Fund (BCF).

4.6.3. The council has seen an increase in demand for DFGs in previous years due to the aim of keeping people living at home for longer. In 2015/16 the council increased the budget for DFGs to £500k as a result of the increase in new referrals coming from NCC Occupational Therapists. Despite this additional funding, the council still faces increasing pressures. The council is waiting for confirmation as to whether it will receive any of the additional funding from the Better Care Fund in order to address this issue.

4.7. ***National Living Wage and Workforce***

4.7.1. The council has included pay awards of 1% for the medium term financial plan in line with the government proposal which was announced earlier in the year and repeated within the Spending Review and Autumn Statement 2015.

4.7.2. However, the introduction of the government's National Living Wage (NLW) will mean wages for some individuals will rise by around 40% over the next 5 years, so that indicative 1% limit is no longer relevant. The Local Government Employers' organisation has made a pay offer for 2016/17 and 2017/18 that is well in excess of 1% for those pay points towards the bottom of the national pay scale. Further guidance on the National Living Wage is expected in due course. Officers have undertaken some modelling and estimated the financial impact to the council. This will be reviewed once further guidance is made available.

4.8. ***Housing and Planning***

4.8.1. The government has announced a number of new measures to support the supply of new homes and home ownership as well as tackling affordability and homelessness. This included changes to the planning system and planning fees.

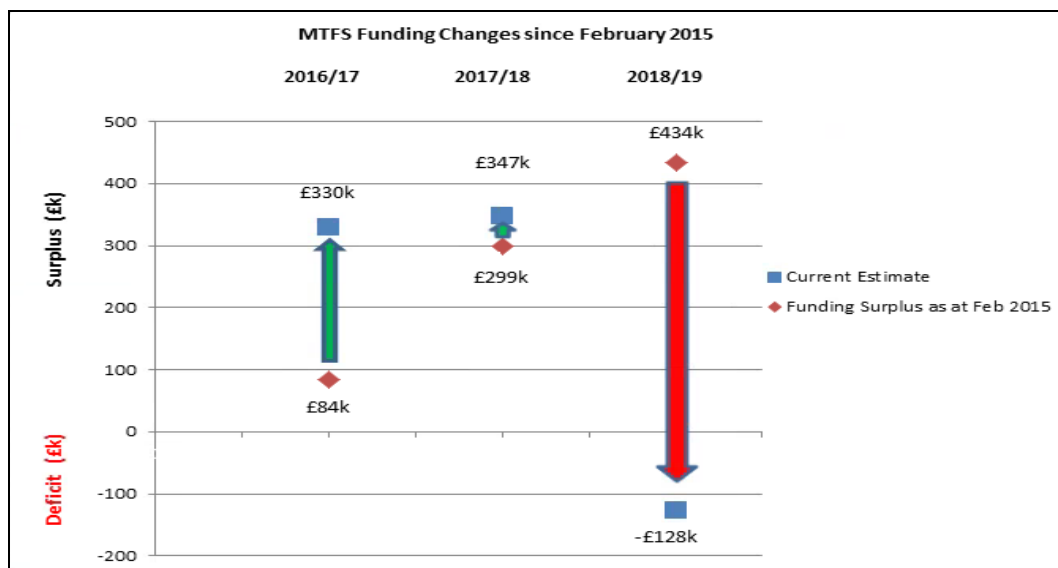
4.8.2. Further detail is required before the council can assess whether these changes will have any financial impact on the MTFs.

4.9. **Government Funding**

- 4.9.1. The 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, the government is determined that cuts to public sector spending will continue for the medium term. The Spending Review and Autumn Statement announcements make it difficult to predict the impact of these cuts at a local level, but reductions of 24% in Government funding over the period of the spending review are expected.
- 4.9.2. The MTFS has weighted the reduction in government funding equally over each of the four years. It is likely that the reductions may be weighted more heavily in the first few years.

5. **Medium Term Financial Strategy**

- 5.1. 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 has been increasingly difficult because of the severity of government spending cuts, recent freezes of Council Tax, government policy changes 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.
- 5.2. 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"
- 5.3. The MTFS and Budget 2016/17 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.
- 5.4. 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
- 5.5. This report updates the MTFS that was set for 2015/16 - 2018/19 and was approved by Council on 25 February 2015. At that time it had been identified that, over the medium term, there was likely to be a funding surplus between what the council expected to spend compared to funding that was anticipated to be received.
- 5.6. The graph below demonstrates the changes to the projected funding surplus over the medium term as at February 2015:



6. Review of Assumptions

5.1 In order to maintain the financial position as outlined in the last MTFS, officers and members have continued to monitor and review the assumptions that were made. 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 in the first two years of the MTFS period. Savings will need to be identified to address the shortfall in 2018/19
Council Tax	<ul style="list-style-type: none"> It is assumed that there is no increase to council tax over the MTFS period. Council tax is assumed to be £123.65 for 2016/17 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 government funding of 10% a year over the medium term
Capital Programme	<ul style="list-style-type: none"> Invest up to £9.5m 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 Employee Costs

5.3.1 Pay inflation has been assumed to be 1% from 2016/17 onwards which is in line with announcements in the Spending Review and Autumn Statement 2015. However, this assumption will need to be revised following the introduction of the new National Living wage, as set out in Section 4.7 above.

5.3.2 Vacancy factors were incorporated into the 2015/16 budget and MTFS. These were based on a prudent level of 3.5% (£200k). The council will continue to include

the vacancy factor at this level from 2016/17 onwards whilst the current levels are achievable.

- 5.3.3 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 as a result of a reduction in the ability to provide for the future pension liability. This put additional pressure on budgets.
- 5.3.4 The employer pension costs paid to the Local Government Pension Scheme (LGPS) are an uncontrollable cost.
- 5.3.5 Estimates received to date indicate a pressure of around £86k each year over the medium term in respect of the pensions deficit. This is incorporated into the MTFS.
- 5.3.6 The council has an agreement which was approved at the Policy and Resources Committee meeting of 17 January 2011 where it offers a guarantee to the Northamptonshire Local Government Pension Fund in respect of any outstanding pension liabilities from Aspirations Wellbeing. The current contract with Aspirations Wellbeing is due to end in 2016/17 at which point it is anticipated that the liability will transfer to the council. The liability was valued at £303k at 31 March 2015.
- 5.3.7 The council pays a stabilised rate in pension contributions which means that the transfer of this liability is likely to have minimum impact on the rate that is currently paid. However, the pension fund is due to be assessed again in 2016, which could result in a change in the deficit or a change in how the fund is managed going forward. This, along with the recent announcement by government to 'pool' Local Government Pension Scheme Fund assets into British Wealth Funds and continuing low returns on investments, make it difficult to estimate the financial impact to the council. Any changes once confirmed will be incorporated into the MTFS in future years.

5.4 **Contract Costs**

- 5.4.1 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 especially in the short to medium term when inflation is anticipated to remain low.
- 5.4.2 Contractual inflation has only been built into the MTFS where it is mentioned within the contract. The contract for waste uses the Building Contractor Information Service (BCIS) indices. These take account of fluctuations for labour, plant and fuel costs. As there are some known increases in staff costs (minimum wage and National Insurance contributions) and fuel costs have fluctuated widely over the last three years, the council has assumed a 3% increase to take account of all these factors.
- 5.4.3 It has been assumed that all other contracts will be maintained within current levels of expenditure.

5.5 **General Inflation**

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

5.6 **Fees and Charges**

- 5.6.1 For the previous MTFS, a thorough review of all fees and charges was undertaken to understand where the pricing of services would ensure that demand is reflected in the charge and costs are fully recovered. This review has been extended into

2016/17 to ensure any changes have been incorporated into the MTFs going forward.

5.7 **Investment Income**

- 5.7.1 The current low level of interest rates has resulted in lower returns from investing our income. It is anticipated that investment returns will remain low for longer than previously forecast and as a result the anticipated return on investment for 2016/17 is likely to be around 0.75%, increasing to around 1.25% by 2018/19. There are significant risks in estimating the rate at which the economic position will improve, and we have taken a relatively cautious view.

5.8 **Council Tax Base**

- 5.8.1 The assumptions relating to the Council Tax Base have been reviewed. The estimated Billing Authority tax base for 2016/17 is 30,084 compared to 29,397 for 2015/16. 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 2016/17 also takes into account other discounts and exemptions, anticipated additional new properties and a small provision for non-collection.

2015/16 Tax base	29,397	
Amendment to 15/16 baseline	440	Actual new property completions exceeding the original forecast.
New properties	433	Increase in the anticipated number of new property completions over the next twelve months.
Council Tax support	(15)	Substantial reduction in CTS expenditure indicating the scheme is successful in encouraging claimants to return to work.
Discounts/Exemptions	(171)	Slight increase in exemptions and single occupier discounts.
2016/17 Tax base	30,084	

5.9 **Council Tax**

- 5.9.1 It has been assumed within the MTFs that Council Tax will remain unchanged for 2016/17 and subsequent years.
- 5.9.2 In previous years, the Secretary of State proposed that a 2% referendum trigger will apply for all principal local authorities in 2015/16. The threshold for 2016/17 has not yet been announced. The council has assumed 2% will still apply until further confirmation is received.
- 5.9.3 The table below shows the additional income that would be raised if the council were to increase council tax up to the threshold each year:

	2016/17	2017/18	2018/19	2019/20
	£	£	£	£
Total (per year)	74,026	76,492	79,020	81,606
Total (Cumulative)	74,026	150,518	229,538	311,144

5.10 **Council Tax Support Funding**

- 5.10.1 ENC will receive Council Tax Support Funding in 2016/17. 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 2016/17 or thereafter.

5.11 **Business Rates**

5.11.1 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.

5.12 **Government Funding**

5.12.1 The MTFS assumes a reduction in government funding of 10% per annum which is spread equally across each year. There is currently some uncertainty over this figure due to announcements in the Spending Review and Autumn Statement 2015 and it is likely that the reductions will be heavier in the early years of the MTFS. However, it is clear that austerity is to continue. The council is expecting the finance settlement figures for 2016/17 in the coming weeks. Any changes to the current estimates will be incorporated into the final MTFS which is due to be considered by Full Council on 24 February 2016.

5.13 **Preparing for the potential funding gap and maintaining the Medium Term Financial Plan**

5.13.1 The effect of the changes outlined above has been to improve the projected funding surplus within the MTFS, as outlined in paragraph 5.6. The council will continue to review other measures in order to reduce the projected gap ahead of 2018/19. The final MTFS will be presented to Full Council on 24 February 2016. By the end of the spending review period the council's aim is to progress from having a *Medium Term Financial Strategy* to having an embedded *Medium Term Financial Plan*.

	2016/17	2017/18	2018/19
	£0	£0	£0
Starting position - Funding surplus as at Feb 2015	(84)	(299)	(434)
Waste Contract - estimated increase in contract	0	0	500
Net increase in waste costs	54	54	54
Housing Benefits	159	159	159
Bad Debt Provision	39	39	39
National living wage implementation	51	104	160
Apprenticeship Levy	0	16	16
Pest control service - increase in costs	14	14	14
Bank charges increase in costs	11	11	11
Amendment to Council Tax Base	13	88	166
Contribution to capital expenditure	(242)	(242)	(242)
Leisure Subsidy reduced	(50)	0	0
Reduction in Shared Service Costs	(22)	(22)	(22)
Insurance - reduction in costs	(14)	(14)	(14)
Savings on utility costs	(10)	(10)	(10)
Increase in planning fee income	(48)	(48)	(48)
Increase in land charge fees	(9)	(9)	(9)

Adjustment to maintenance costs	(92)	(92)	(92)
Grant Income changes	(27)	(22)	(17)
Business transformation projects	(66)	(79)	(88)
Updated forecast for interest received	(17)	(7)	(12)
Other movements	10	12	(3)
Updated position – (Surplus) / Deficit	(330)	(347)	128

6 Medium Term Financial Strategy (MTFS)

6.1 The MTFS for 2016/17 – 2019/20 is shown in **Appendix 1**.

7 Medium Term Financial Plan (MFTP)

7.1 Work is continuing on proposals to create further savings over and above those shown above to continue with the council's move towards embedding a *Medium Term Financial Plan*.

7.2 Items that are being looked at include:

- Waste Management
- ICT
- Leisure
- Business Transformation
- Continuous 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 to reduce by 26% in real terms over the medium term according to the Spending Review and Autumn Statement 2015. However, until further detail is announced in the Financial Settlement, there remains uncertainty in trying to predict future levels of Government funding.

8.1.2 It is anticipated that not all detail will be released as part of the Financial Settlement and further announcements will be made in the coming months. The council will review the MTFS regularly and update it accordingly.

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 2016/17. 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, reducing thereafter in line with cuts in government funding.

8.2 New Homes Bonus

8.2.1 The MTFS assumes a level of New Homes Bonus funding in line with the current scheme. The government has announced that it will shortly be consulting on a number of changes to the scheme including a reduction from the current six year scheme to a new four year scheme. It will also look at a preferred option for savings of at least £800 million which can be used for social care. Whilst the council anticipates that these changes will be offset by changes in other government funding over the medium term, the timing and rate of these changes may differ.

8.3 **Waste Cost Mitigation**

- 8.3.1 There is a potential pressure from 2018/19 onwards due to the renewal of the waste contract and changes to waste regulations. The council is exploring ways to mitigate this cost but has incorporated £500k per annum until further options are evaluated. There is a risk that this cost could be higher.

8.4 **Pension Liability**

- 8.4.1 There is a risk that the pension liability for the council will increase as a result of the governments proposed changes and changes to how the pension fund is managed. The council is expecting more detail to be announced towards the end of 2016 on which it can assess the impact on the MTFS in future years.

8.5 **Pressures from Other Public Sector Bodies**

- 8.5.1 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 where there are links with the County Council or Health. The impact of such changes cannot be quantified until the County Council approves its final budget and more details on the allocation of the Better Care Fund are released.

8.6 **Business Rates**

- 8.6.1 Changes to businesses' circumstances, such as Fairline Boats going into administration, 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 2016/17**

8.1 **Revenue Outturn 2015/16**

- 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 2015/16 budget was set with a surplus of £520k which will contribute towards reserves at the end of the financial year.
- 9.1.3 Budget monitoring is currently showing a forecast underspend of £242k. This demonstrates that the council is managing within current resources. Over 30% of this underspend is attributable to planning fee income being higher than budgeted whereas 60% of the underspend is one-off in nature. Any on-going savings will be incorporated into the budget.
- 9.1.4 At present the £242k underspend will form a contribution to revenue reserves at the end of the financial year along with the £520 surplus mentioned above.

9.2 **Revenue Budget 2016/17**

- 9.2.1 The council needs to spend £9.1m in 2016/17 to maintain current services. A summary of the revenue budget for 2016/17 is set out below:

2015/16 £		2016/17 £
1,326,636	Customer and Community Services	1,451,285
2,848,440	Environmental Services	2,700,530
940,540	Information Technology	946,387
1,812,357	Resources and Organisational Development	1,728,109
1,245,820	Planning Services	1,275,545
973,390	Corporate and Democratic Core	1,017,819
9,147,183	Total Net Expenditure	9,119,675
520,308	Transfer to Earmarked Reserves	329,881
1,008,635	Community Projects	1,117,052
(78,000)	Net Interest (Received) / Paid	(127,500)
10,598,126	Budget Requirement	10,439,108

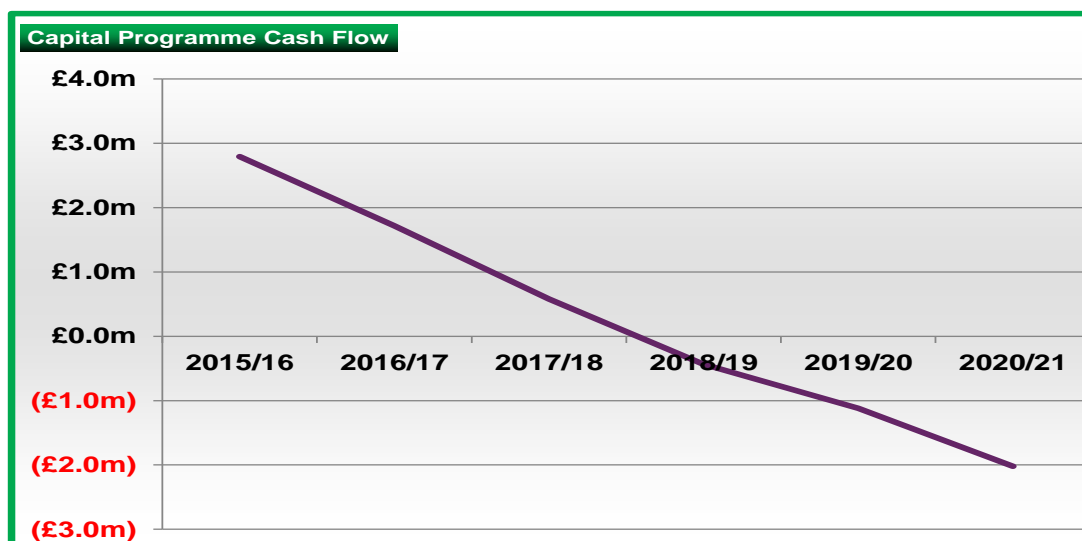
9.2.2 The total net service expenditure in the revenue budget for 2016/17 is £28k lower than the approved budget 2015/16. This is due to the following changes:

	£k
Revenue Budget Net Service Expenditure 2015/16	9,147
Service Pressures and Budget Increases	632
Savings and Additional Income (excl. Government Funding and Council Tax)	(659)
Revenue Budget Net Service Expenditure 2016/17	9,120

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

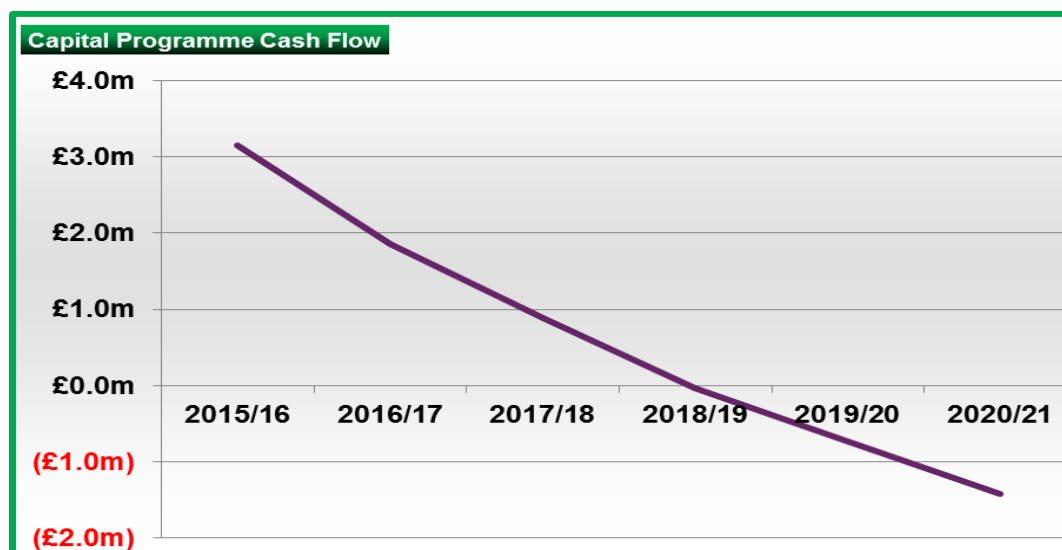
10 Draft Capital Programme 2016/17 to 2025/26

10.1 The council's projected capital cash flow as at February 2015 is shown in the following graph.



10.2 For 2015/16 the capital programme was 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 2015/16 there were two batches of capital schemes that were released into the approved programme following approval by Finance Sub Committee.
- 10.4 Since the last budget was set, a number of capital receipts due to arise from asset sales have been delayed longer than previously anticipated. The programme has also been revised to take account of other changes to projects.
- 10.5 As a result, the latest position on the capital cash flow is now as follows:



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 will be required to seek alternative options for financing capital expenditure. This position is being proactively mitigated through the MTFP.

10.7 **Capital Outturn 2015/16**

10.7.1 The capital programme 2015/16 is currently forecasting a variance of £270k.

10.7.2 The 2015/16 capital programme is summarised in the table below:

	2015/16
Approved Capital Programme	£1,678,443
Total Expenditure	£1,678,443
Funded by:	
Wheeled bins – RCCO	£260,000
DFG – 2 nd homes from NCC	£76,900
DFG – Local Council Tax Support from NCC	£95,940
DFG – Better Care Fund from NCC	£223,465
DFG – Better Care Fund from NCC (c/fwrđ 14/15)	£119,012
Capital Reserves	£903,126
Total Funding	£1,678,443

10.7.3 Due to the capital cash flow position outlined in the graph above, any capital underspend for 2015/16 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 2016/17 and beyond**

10.8.1 The main aim of the Capital Programme 2016/17 to 2025/26 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.

	2016/17	Future Years	Total
Approved Capital Programme	889,000		889,000
Development Pool	884,005	8,035,600	8,919,605
Total Expenditure	1,773,005	8,035,600	9,808,605
Funded by:		Future funding streams will be agreed annually as part of the budget setting process	
Capital Reserves (including Proceeds from Asset Sales)	1,603,005		
Grant and Revenue Contribution	170,000		
Total Funding	1,773,005		

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 maintain the minimum level of reserves of £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:

	31/03/15 £000	31/03/16 £000	31/03/17 £000	31/03/18 £000	31/03/19 £000	31/03/20 £000
Council Improvement Reserve	4,433	4,423	4,517	4,403	4,321	4,231
Budgeted contribution to reserves	0	520	850	1,197	1,070	648
Planning Reserve	51	51	0	0	0	0
Land Charges	34	0	0	0	0	0
Community Projects	1,400	1,908	1,608	1,608	1,608	1,608
Elections Reserve	100	50	80	110	140	50
Carry forwards 2013/14	36	0	0	0	0	0
Insurance Reserve	100	100	100	100	100	100
Capital Financing	387	387	387	387	387	387
Revenue Grants Reserve	85	0	0	0	0	0
BRR Reserve	600	300	0	0	0	0
Legal Costs	125	0	0	0	0	0
Revenue & Benefits	134	0	0	0	0	0
Future Contract Procurement	200	150	50	0	0	0
Earmarked Revenue Reserves	7,685	7,889	7,593	7,806	7,626	7,024
Underlying minimum level of reserves	1,000	1,000	1,000	1,000	1,000	1,000
Enhanced minimum level of reserves	500	500	500	500	500	500
Total Revenue Reserves	9,185	9,389	9,093	9,306	9,126	8,524
Estimated Outturn at 31/12/15 (Subject to change)	0	242	0	0	0	0
Total Estimated Contribution	0	242	0	0	0	0
Capital Reserves	2,273	983	(620)	(1,588)	(2,513)	(3,199)
Capital Receipts Reserve	2,162	2,162	2,472	2,472	2,472	2,472
Total Capital Reserves	4,435	3,146	1,853	885	(40)	(727)
Total Reserves	13,620	12,777	10,945	10,190	9,086	7,797

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 2019/20, as shown in the chart at paragraph 10.5.

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 2016/17**

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 appointed new Treasury Management Advisors following a procurement process in August 2015. The Treasury Management Strategy is currently being reviewed with the new Treasury Advisors and will be presented along with the final budget in February 2016.

13 Equality and Diversity Implications

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

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 “Medium Term Financial Strategy assumptions become inaccurate (Risk FIN 002)”. 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:
- 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

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 a 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 at the lowest possible cost as well as 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

18 Recommendations

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

- Draft Medium Term Financial Strategy (MTFS)
- Draft Revenue Budget 2016/17
- Draft Capital Programme for 2016/17-2025/26 (subject to the on-going review of schemes within that programme)

(Reason: To ensure that 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: 10/12/2015					
CFO		MO		CX	

Medium Term Financial Strategy 2016/17 to 2019/20

Appendix 1

2015/16 Revised Budget £		2016/17 Draft Budget £	2017/18 Indicative Budget £	2018/19 Indicative Budget £	2019/20 Indicative Budget £
1,326,636	Customer and Community Services	1,451,285	1,338,975	1,336,867	1,341,965
2,848,440	Environmental Services	2,700,530	2,698,543	3,196,601	3,194,707
940,540	Information Technology	946,387	951,370	956,411	961,513
1,812,357	Resources and Organisational Development	1,728,109	1,728,801	1,733,718	1,737,865
1,245,820	Planning Services	1,275,545	1,284,499	1,293,597	1,302,844
973,390	Corporate and Democratic Core	1,017,819	1,183,047	1,334,593	1,488,541
9,147,183	Total Service Expenditure	9,119,675	9,185,235	9,851,788	10,027,435
	Other Expenditure/Adjustments				
0	Amount to be met from Reserves			(127,884)	(421,596)
520,308	Transfer to Earmarked Reserves	329,881	347,218		
1,008,635	Community Projects (New Homes Bonus)	1,117,052	1,185,655	1,185,655	1,185,655
0	Savings options to be determined	0	0	0	0
(78,000)	Net Interest Received / Paid	(127,500)	(150,000)	(187,500)	(225,000)
1,450,943	Total Other Adjustments	1,319,433	1,382,873	870,271	539,059
10,598,126	Total Budget Requirement	10,439,108	10,568,108	10,722,059	10,566,494
	Sources of Funding				
(180,000)	Transfer From Collection Fund	0	0	0	0
(2,017,269)	New Homes Bonus	(2,234,103)	(2,371,310)	(2,371,310)	(2,371,310)
(39,053)	Council Tax Freeze Grant	0	0	0	0
(1,709,463)	Revenue Support Grant	(1,282,097)	(961,573)	(721,180)	(540,885)
(2,187,291)	Business Rates Retention Baseline	(2,252,910)	(2,320,497)	(2,390,112)	(2,390,112)
(499,552)	Business Rates Retention Growth	(619,552)	(839,552)	(1,139,552)	(1,139,552)
(330,558)	Business Rates Retention Pooling Benefit	(330,558)	(330,558)	(330,558)	(330,558)
0	Council Tax Support Transition Grant	0	0	0	0
0	Other income grants	0	0	0	0
(6,963,187)	Total Funding	(6,719,221)	(6,823,491)	(6,952,713)	(6,772,418)
3,634,939	Amount to be met from Council Tax	3,719,887	3,744,617	3,769,347	3,794,076
29,397	Council Tax Base	30,084	30,284	30,484	30,684
123.65	Equivalent Band D Tax	123.65	123.65	123.65	123.65
	% change in Council Tax	0.00%	0.00%	0.00%	0.00%

Additional funding if 1.99% Council Tax Increase applied each year

£74,026

£150,518

£229,538

£311,144

Service Area	Change	Salary Incr./(Decr.)	Contract Inflation	Service Pressure	Efficiency	Additional Income	Service Reduction	Net Change
		£000	£000	£000	£000	£000	£000	£000
Customer & Community Services	Staff Budget Changes	54						54
	Housing Benefit Changes			151				151
	Housing benefit bad debt provision			39				39
	Leisure Subsidy				(50)			(50)
	Land Charges					(10)		(10)
	Technical and Other Changes less than £10k			(45)	(14)	(1)		(60)
Environmental Services	Staff Budget Changes	64						64
	Increase in Contractual Charges (Waste/Street Cleansing)		55					55
	Revenue contribution to Capital			(240)				(240)
	Pest control costs			14				14
	Waste collection					(27)		(27)
	Technical and Other Changes less than £10k			15	(6)	(20)	(4)	(14)
Information Technology	Staff Budget Changes	72						72
	Qualification, short courses & seminars			1				1
	Shared Services					(50)		(50)
	Technical and Other Changes less than £10k			8	(25)	(0)		(17)
Resources and Organisational Development	Staff Budget Changes	(7)						(7)
	Service Charges			12				12
	Maintenance and repairs			(10)				(10)
	Electricity costs				(10)			(10)
	Business Transformation				(66)			
	Technical and Other Changes less than £10k			21	(25)			(4)
Head of Planning Services	Staff Budget Changes	84						84
	Consultancy fees (Public enquiries)			0				0
	Planning fees					(56)		(56)
	Technical and Other Changes less than £10k		1	6		(1)	(4)	2
Corporate and Democratic	Staff Budget Changes	8						8
	National Living Wage	51						51
	Shared Services		18					18
	Bank charges (Debit card costs)			11				11
	Insurance Costs				(12)			(12)
	Unfunded pension costs						(16)	(16)
	Individual Electoral Registration processes					(20)		(20)
Technical and Other Changes less than £10k			8	(4)			5	
Total Revenue Budget Changes		327	74	(9)	(211)	(185)	(24)	(28)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total 2016/17 to 2025/26
DRAFT Capital Programme	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	£
	£	£	£	£	£	£	£	£	£	£	£
Housing Projects	500,000	-	-	-	-	-	-	-	-	-	500,000
Leisure and Tourism Projects	119,000	-	-	-	-	-	-	-	-	-	119,000
Environment Projects	270,000	-	-	-	-	-	-	-	-	-	270,000
Central Services Projects	-	-	-	-	-	-	-	-	-	-	-
Corporate Systems	-	-	-	-	-	-	-	-	-	-	-
Essential Property Maintenance	-	-	-	-	-	-	-	-	-	-	-
Vehicle Replacements	-	-	-	-	-	-	-	-	-	-	-
Total	889,000	-	-	-	-	-	-	-	-	-	889,000

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total 2016/17 to 2025/26
DRAFT Capital Project	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	£
	£	£	£	£	£	£	£	£	£	£	£
Disabled Facilities Grants	500,000	-	-	-	-	-	-	-	-	-	500,000
Purchase of Wheeled Bins	270,000	-	-	-	-	-	-	-	-	-	270,000
Stanwick Lakes - Infrastructure	119,000	-	-	-	-	-	-	-	-	-	119,000
Total	889,000	-	-	-	-	-	-	-	-	-	889,000

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total 2016/17 to 2025/26
Development Pool	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	£
	£	£	£	£	£	£	£	£	£	£	£
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	52,000	-	-	-	-	-	-	-	-	-	52,000
Environment Projects	-	270,000	-	16,600	-	-	-	-	-	-	286,600
Central Services Projects	30,000	-	-	24,000	20,000	30,000	-	-	-	-	104,000
Corporate Systems	527,005	293,000	210,000	276,000	300,000	270,000	445,000	160,000	176,000	160,000	2,817,005
Essential Property Maintenance	275,000	75,000	385,000	40,000	40,000	-	10,000	10,000	30,000	295,000	1,160,000
Vehicle Replacements	-	-	-	-	-	-	-	-	-	-	-
Total	884,005	1,138,000	1,095,000	856,600	860,000	800,000	955,000	670,000	706,000	955,000	8,919,605

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total 2016/17 to 2025/26
Development Pool	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£	£	£	£	£	£	£
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		25,000	65,000								90,000
Purchase of Wheeled Bins		270,000									270,000
Business Critical											-
AMP - Pemberton Centre	38,000										38,000
AMP - Nene Centre	14,000										14,000
AMP - Rushden Centre	50,000				30,000			30,000			110,000
AMP - East Northamptonshire House	155,000	10,000	10,000	30,000	10,000		10,000		285,000		510,000
AMP - Industrial Units	30,000	30,000	300,000								360,000
AMP - Polebrook Cemeteries	-	10,000		10,000			10,000			10,000	40,000
AMP - Village Drains	10,000										10,000
AMP - Public Car Parks	30,000		10,000								40,000
Print Room Asset Management	30,000			24,000	20,000	30,000					104,000
Replacement Dog Warden Vans				16,600							16,600
PC`S, Monitors & Laptops	30,000	23,000	35,000	35,000	15,000	15,000	15,000	15,000	15,000	15,000	213,000
Data Infrastructure Equipment	64,000	10,000	10,000	10,000	100,000	10,000	10,000	10,000	10,000	10,000	244,000
Security Systems	19,005	10,000	10,000	10,000	10,000	10,000	10,000				79,005
Licences	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	1,250,000
DR/Business Continuity	15,000					40,000	40,000				95,000
Printers & Scanners		20,000		16,000			20,000		16,000		72,000
Servers	20,000	80,000	10,000	10,000	10,000	10,000	80,000	10,000	10,000	10,000	250,000
Upgrade for Uninterrupted Power Supply to server room (UPS for L12)		25,000									25,000
Storage/Replacement SAN	64,000	-	-	10,000	10,000	60,000	-				144,000
Upgrade Public Access and TLC systems (CAPS Solutions/ERMS)	-	-	20,000	-	30,000	-	35,000				85,000
CRM Upgrades		-		25,000							25,000
Telephone System	30,000	-		25,000		-					55,000
ESRI - GIS Upgrade	25,000			10,000			70,000				105,000
Oracle Licensing & Physical servers	50,000		-				40,000				90,000
Data Centre Upgrade	85,000										85,000
Total	884,005	1,138,000	1,095,000	856,600	860,000	800,000	955,000	670,000	706,000	955,000	8,919,605
Total Approved Programme and Development Pool	1,773,005	1,138,000	1,095,000	856,600	860,000	800,000	955,000	670,000	706,000	955,000	9,808,605