Agenda Item 7b

East Northamptonshire Council

Council
24 February 2016

Report by Chief Finance Officer on Robustness of Budget Estimates and Adequacy of Reserves

Purpose of report

To advise the Council on the robustness of the estimates in the budget and the adequacy of the proposed financial reserves before recommending to Council the Council's Medium Term Financial Strategy 2016/20, the Revenue Budget for 2016/17, Capital Programme 2016/26, Reserves levels and Treasury Management Strategy 2016/17.

1.0 Background

1.1 Section 25(1) of the Local Government Act 2003 requires that the Chief Financial Officer (Section 151 Officer under the Local Government Act 1972) reports to the Council when setting its Council Tax on:

- the robustness of the estimates in the budget.
- the adequacy of the proposed financial reserves.

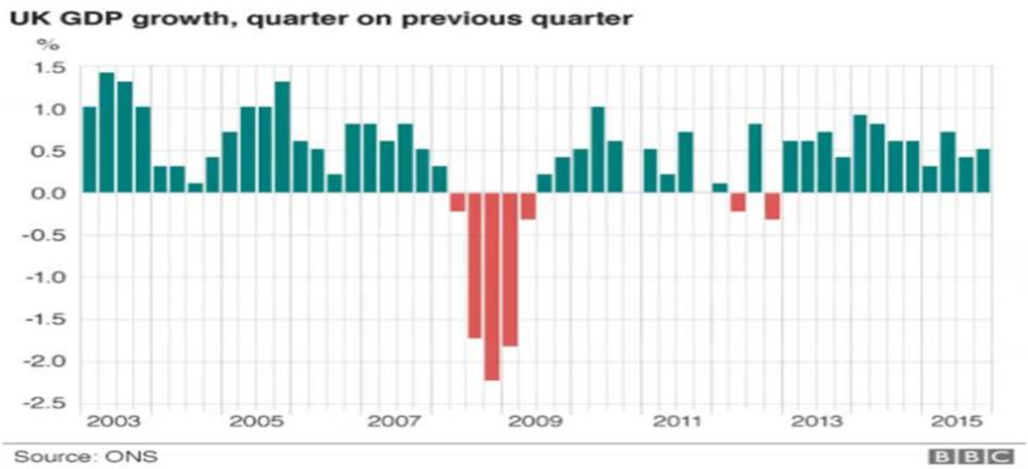
1.2 Section 25(2) of the 2003 Act requires the Council to have regard to this report in approving the budget and Council Tax.

2.0 Context

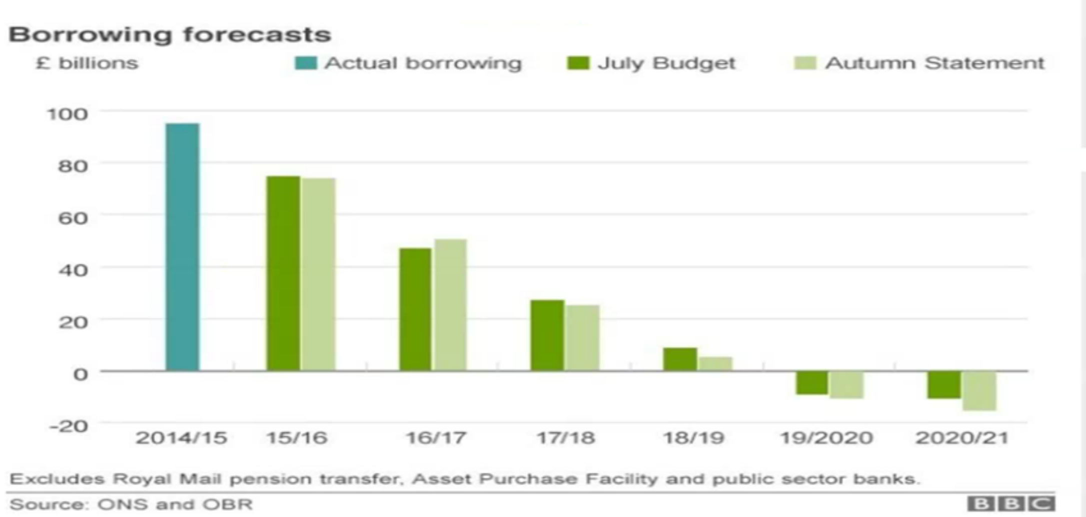
2.1 The Council is setting its budget at a time when it faces significant challenges. In broad terms these can be split into 3 categories; economic, local government and local challenges. Each of these challenges is explored below:

2.2 Economic Challenges
In 2015 the annual growth in the UKs Gross Domestic Product (GDP) was 2.2%. The growth in 2015 was the lowest rate recorded in the last three years, but it still means the UK economy is growing at one of the fastest rates in the developed world. Based on forecasts by the International Monetary Fund (IMF) this growth is expected to continue for 2016 and 2017.

2.3 The graph below shows the quarterly growth increase (left hand axis) and total GDP (right hand axis) over the past 12 years. The impact of the financial crisis and recession in 2008/09 is clearly evident. However, since 2013 the economy has grown consistently each quarter. This is extremely positive news for the UK economy.



2.4 The UK economy is still operating with an annual deficit and the Government has stated its commitment to a balanced budget by 2020. Due to the depth of the downturn this is longer than previously envisaged. The graph below shows how the annual borrowing forecasts have changed between July and November 2015.



2.5 Local Government Challenges

Since 2010 Government funding for local government has reduced by approximately 40% in real terms. A new Government was elected in May 2015 and have subsequently made a number of announcements, including Summer Budget (July 2015), Spending Review (November 2015) and provisional Local Government Finance Settlement (December 2015). The key headlines from these announcements were:

- Local Government funding will reduce from £21.9bn to £17.8bn by 2019/20
- Switch of funding toward councils with social care responsibilities
- Switch of funding from rural to urban areas
- Proposals to review New Homes Bonus, including an £800m reduction in funding
- The introduction of the “Core Spending Power” which includes assumptions from Government about increases in council tax levels and rises in the taxbase
- An offer of a four year deal from Government to provide more certainty for council to assist in planning service provision over the medium term
- Social housing changes, including a 1% per annum reduction in rents and changes to Right to Buy
- A proposal to move to a 100% business rates retention scheme by 2020

2.6 In addition to the continuing austerity measures it is anticipated there will be further changes to Government policy which councils will be expected to implement by 2020.

2.7 From these changes it appears that the Government is moving slowly away from the previous needs-based funding of the old formula grant towards a system where councils are rewarded for growth in house and business numbers. For example, Revenue Support Grant (RSG) is forecast to reduce at significant rates over the medium term and is therefore unlikely to be a primary source of funding for the Council in the future. It is being replaced by Business Rates Retention and New Homes Bonus (albeit at lower levels than previously experienced), both of which reward those areas which can promote and deliver growth. RSG for the Council is forecast to be negative by 2020/21, when it will have to pay a tariff to Government from its business rates baseline.

2.8 It should be noted that there is more information upon which to base financial forecasts than 12 months ago, particularly for the 2016/17 financial year. However, there are a number of key pieces of information that councils do not have clarity on over the medium term. For example how the 100% Business Rates Retention scheme will work in practice, which services will be transferring to local government and which proposals from the New Homes Bonus review will be implemented. Even the areas where there is perceived to be more clarity, such as the 1% reduction in social rents per annum, the Government is issuing exceptions as the impact of proposals on specific demographics becomes clearer. Another challenge facing local government is the continued impact of an increasing elderly population and the associated pressures on social care and health services. This has led to a redistribution, albeit over time, of local government funding. There will be a further opportunity for Government to redirect resources when 100% Business Rates Retention is implemented. All of these changes present significant risks, to the Council over the period of its Medium Term Financial Plan.

2.9 East Northamptonshire Challenges
Over the past four budget planning rounds the Council has implemented a financial strategy which addressed a number of specific financial challenges it faces, including an unsustainable revenue budget with an over-reliance on reserves to balance the budget each year, reducing reserves and an unsustainable capital programme.

2.10 During 2015/16 the Council has made good progress in delivering its MTFS, the primary areas being:

- Delivery of revenue budget savings and operating at a significant surplus in its revenue budget for 2015/16.
- A review by officers and councillors of the underlying assumptions in the MTFS.
- The increase in business rates growth since 2013.
- The identification and implementation plans of areas where the Council can operate more efficiently and effectively by the Business Transformation Team.
- Further progress on the asset sales programme which commenced in 2012, and has realised over £4m of receipts to finance the capital programme.
- Embedding and operating enhanced capital governance arrangements.

2.11 However, the Council continues to face significant external challenges that it will need to manage over the medium term. There are still a number of actions and mitigations that are in the process of being implemented, potential pressures on the renewal of the waste collection contract and the impact of County Council budget proposals, particularly relating to waste, on the Council. As I mentioned last year, the MTFS is only a plan. The biggest challenge will be for the Council to deliver it.

3.0 Medium Term Financial Strategy (MTFS) 2016/17 to 2019/20

3.1 The MTFS is a key part of ensuring the Council's future. The approach during the 2016/17 budget planning round has been to update the previous year's MTFS for any changes to assumptions, local policy changes, national policy changes and known risks. The Council's Corporate Management Team has been maintaining a constant eye on the MTFS since March 2015 and has taken action to reduce costs, increase income and make the organisation more efficient. Councillor involvement in this refresh has been through the Finance Sub Committee meetings and a Member Budget Workshop held during January 2016.

3.2 Key assumptions, risks and mitigations
Section 5 of the Budget Report presented to the Policy and Resources Committee on 15 February 2016 sets out all of the assumptions which underpin the MTFS. These assumptions are robust and are based on the most up to date intelligence available. However, as with any assumption, there is an element of risk that the reality will be different. The following assumptions in the MTFS contain the most risk:

- **Government funding.** The current assumption is as announced in the Local Government Funding Settlement when the Council was notified by Government its allocation for 2016/17 and indicative allocations for the 3 subsequent financial years. Over this period Revenue Support Grant (RSG) is forecast to reduce from £1.2m in 2016/17 to £0.09m by 2019/20.

This is an aggressive reduction in RSG and would indicate the Council would have a negative RSG in the 2020/21 financial year. It should be noted the forecast funding position is only indicative for 2017/18 and beyond. The reductions in funding for districts councils are faster and deeper than previously envisaged as Government have changed their methodology for allocating grant on two fronts; namely moving monies away from rural areas to urban areas and towards councils with social care responsibilities. It should be noted there is further potential for Government to amend the methodology for allocating resources when Business rates retention is introduced, see below for more details.

The risk is mitigated by using the figures provided by Government in our forecasts. To mitigate the risks further the Council should consider entering into the four year funding deal announced by Government. However, such a deal will need to be backed up by an Efficiency Plan. At the time of writing the full details of the 4 year offer and Efficiency Plan are still to be assessed as to whether it is worthwhile for the Council. The Council has until 14 October to sign up to the Government offer and submit an Efficiency Plan.

- **New Homes Bonus (NHB)**. The Government has announced proposals to review the current NHB system. All of the proposals being consulted on will see reductions in the amount of resources available for the Council. The current scheme will continue in 2016/17 with any new scheme due to be in place by from April 2017. In 2016/17 the Council has been allocated £2.6m, this could reduce by up to 50% in the subsequent years depending upon which proposals are implemented. The Council currently uses 50% of its NHB allocation to fund its on-going revenue budget and 50% is set aside for Community Projects. The MTFS assumes the current policy of a 50:50 split of between on-going and Community Budgets will continue, albeit with a much lower NHB allocation of £1.8m.

  A reduction in funding of up to 50%, or £1.3m, presents a significant risk to the Council. However, the Council's historic decision not to use all of its NHB to finance on-going expenditure means there is flexibility to absorb the reduction without there being a major impact on services.

- **Business Rates Retention**. The current assumption is for the level of business rates in 2016/17 to grow to £23.2m, from a baseline of £22.2m. The Council is likely to retain around £0.8m with a further £0.4m generated by "pooling" with other councils in Northamptonshire. The actual level of business rates for 2016/17 will not be known until after the end of the financial year. Beyond 2016/17 there are assumptions included in the MTFS for further growth in Business Rates. The majority of this relates to the Rushden Lakes development. However, it should be noted there is a high level of uncertainty over the level and timing of this growth. The Council has also made assumptions around business rate appeals. Currently there are 231 appeals outstanding with a total rateable Value of £18.5m. A further risk to be aware of is the business rates revaluation due to be implemented in April 2017. Although this is expected to be fiscally neutral nationally it may not be at a local level and there are likely to be an increase in the volume of appeals following the revaluation.

  The Government has announced that they are seeking to move to a scheme where councils retain 100% of their growth in business rates by 2020. The Government will start to consult on their proposals during 2016. As the total amount of business rates raised nationally are around £5bn more than the current level of Government grant to councils there will be additional services transferred to local government. At this stage it is not know what these services are or who will manage them in two tier areas.

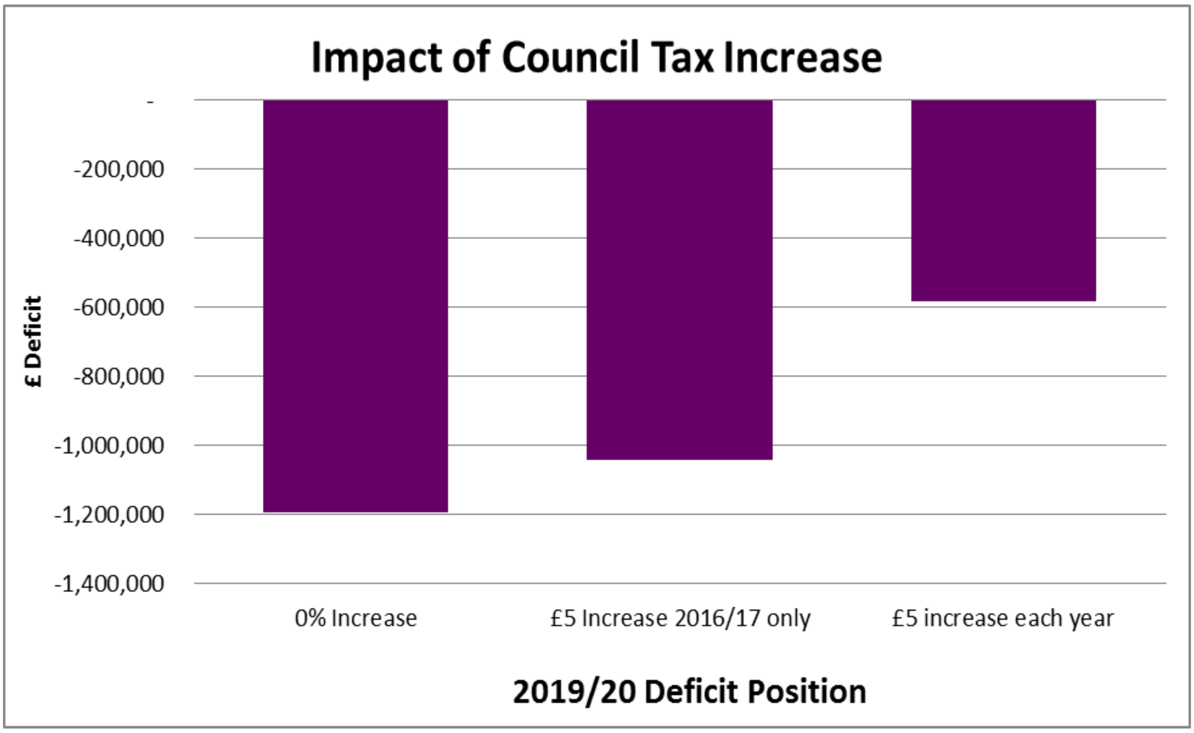
  This presents the Council with a number of risks to manage, specifically:
  - Delivery of the timing and level of business rate growth. The Council has incorporated prudent forecasts in its budget. The Council has developed an innovative approach to forecasting its level of Business Rates over the medium term with the establishment of the Business Rates Forecasting Group consisting of officers from planning, revenues and finance. The Council also has a good relationship with the Valuation Office Agency
  - Business rate appeals. The Council has made a provision for historic and future appeals in its business rates forecasts. However, it should not be underestimated the amount of uncertainty around business rates appeals on the Council's financial position

- The intention to move towards a 100% business rates retention scheme on the face of it, appears to be good news as councils can keep all of their business rate growth. However, its also increases the existing risks around timing/level of growth and appeals/volatility as councils will carry 100% of the risk, rather than the current 50%. A new risk is around the additional services being transferred to the Council. As the proposals are consulted upon and firmed up the Council will need to flex its financial position accordingly.

- **Council Tax.** The Council's strategy with regards to the level of council tax for 2016/17 is unclear as a firm position will not be known until Council meets on 24 February 2016 and this does not help medium term financial planning with any certainty or my ability to provide sufficient assurance on the strategy adopted. The MTFS assumes no increase in 2016/17 or over the MTFS period.

  The Governments position with regards to council tax has changed significantly since May 2015. In recent years the Government has incentivised councils not to increase council tax by offering a Council Tax Freeze Grant. This grant is no longer payable and the Government, through its Core Spending Power, are assuming councils will increase their council tax to maintain services. For East Northamptonshire Council, the Government is assuming the council will increase its council tax by £5 per year until 2019/20. In addition the Government are assuming an increase in our taxbase of around 3% per annum. This is significantly ahead of growth experienced in recent years.

  A clear strategy on the Council's policy for council tax levels over the MTFS period is an essential part of a councils financial planning. Having no strategy in place puts additional uncertainty on the council. In establishing a strategy for council tax, the Council is reminded of the financial challenge faced by the organisation over the medium term with annual shortfalls in budget forecast at around £1m from 2018/19. The Chief Finance Officer strongly recommends the Council establish a clear policy for the medium term. The graph below sets out how a policy on council tax would impact upon the forecast deficit in 2018/19.



- **Localisation of council tax support (CTS).** The current assumption is that the shortfall arising from the Government funding for CTS in 2016/17 will be met from council tax discounts/exemptions and a 20% council tax liability for those entitled to CTS. This is an increase from 2015/16 and is expected to be cost neutral with regards to the impact on the wider council tax payer given on-going reductions in government grant to finance the gap.

The risk is that the actual position is different from the budget at the start of the year as the final position won't be known until the end of the financial year. Extensive modelling has been undertaken to provide the Council with assurance of the financial impact. The primary reason for increasing the liability to 20% is to ensure a cost neutral scheme for all taxpayers. Beyond 2016/17 it is assumed any additional costs arising from reduced government funding are mitigated by reductions to the CTS scheme.

- **Waste Contract Re-procurement**. The current waste collection contract is due for renewal in 2018. The market intelligence the Council has received is that a new contract would be more costly than the existing one. An estimate has been incorporated into the MTFS in 2018/19 of an additional £500k (a 30% increase in the contract price). This is a significant cost pressure facing the Council and one that is contributing to approximately half of the funding deficit from 2018/19 in the MTFS.

  The Council needs to reduce this estimated cost pressure. If not the council will need to find efficiencies/savings/generate income in other areas of the budget to offset this pressure. To manage the additional work and costs of the procurement process the Council has established an earmarked reserve.

- **Housing**. Since the new Government were elected in May 2015 there have been a number of announcements which will affect social housing in England. These have included a 1% reduction in social rents per annum for the next four years and an extension of Right To Buy. Both of these changes will affect Housing Associations and their tenants. As a result the Housing Associations will have less income, although this is planned to be offset in the case of Right To Buy, to provide social housing in the district. This may have an impact on the Council's homeless budgets.

  To mitigate the effect of this the Council will need to work closely with its Housing Associations and closely monitor the knock on implications on its homelessness budgets.

- **Financing the Council's Corporate Plan**. At the Council meeting in December 2015 the new Corporate Plan was adopted. This plan incorporates a number of outcomes which will require investments. At this stage it is unclear how much investment is required to deliver these outcomes and where this money will come from. Delivering the aspirations set out in the Corporate Plan is likely to need more innovative approaches to delivery and larger sums of investment than the Council has previously undertaken.

  Firstly, the Council needs to establish how it will deliver the outcomes of the corporate plan and how much this will cost. Secondly, the Council will need to ensure this investment provides value for money and decisions are taken with fully informed business cases. It should be noted that with innovation and large investment comes risk and the Council needs to consider this carefully when approving investment plans for its Corporate Plan.

- **Universal credit**. The picture for implementing universal credit continues to emerge and evolve. However, the implications for the Council's finances still remain unclear. Indications from the pilot councils show there could be an impact on the Council's budget.

  The Council will mitigate this risk by using its intelligence networks to estimate the financial impact as information emerges during the financial year, and undertaking a fundamental review of its Council Tax Support Scheme during 2016/17 to ensure it is financially sustainable.

- **Employee Costs and Vacancy Factors.** There is currently no pay agreement in place from April 2016. Pay inflation has been assumed to be 1% for 2016/17 and across the MTFS period. This is in line with government announcements on public sector pay. The impact of announcements regarding the National Living Wage are also reflected in budget forecasts over the medium term. Prior to the 2015/16 financial year 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. Vacancy factors were included in the budget for 2015/16 and closely monitored via Finance Sub-Committee and CMT. These vacancy factors will continue in the 2016/17 budget and MTFS at a level of 3.5% (£200k).

3.3 Within the period of the MTFS there is expected to be an annual surplus in 2016/17 which will lead to a contribution to reserves. In subsequent years of the MTFS there are funding deficits predicted. The funding deficits in 2018/19 and beyond are over £1m per annum, primarily due to Government funding reductions and the anticipated additional costs of waste collection.

3.4 However, there are a number of uncertainties the Council faces over the period of the MTFS which are not reflected in the MTFS. The uncertainties include the following:

- Business rates. The move towards 100% retention, appeals and revaluation.
- The affordability of the capital programme from 2019.
- The impact of budget proposals from the County Council.
- Government funding reductions over and above those assumed in the MTFS and amendments to the distribution of funding across local government.
- Timing of monies arising from forecast business rates, e.g. delays in new developments becoming operational.

3.5 At this stage it is unclear whether these uncertainties will have a positive or negative impact on the Council. The Council cannot assume these uncertainties will work out to be positive from a financial perspective and should therefore be working proactively to develop strategies and plans to identify further saving opportunities efficiencies that will deliver at least £1m per annum by 2018/19.

3.6 Delivering the MTFS

The MTFS requires a number of key actions to be implemented in order to achieve a stable and sustainable financial position for the Council. These include implementing savings plans, identifying further savings, reviewing contracts, delivering business transformation projects and increasing revenues by encouraging more businesses into the district. As noted in Section 2 of the report all of these will need to be managed against a backdrop of further significant change to the Local Government sector. To ensure delivery, officers at the Council are advised to ensure that:

- project teams are established to deliver the savings programmes, particularly those still to be identified, and that these teams are resourced to the right level.
- projects have clearly defined deliverables to transform services which balance service improvement with reducing costs and being more efficient.
- monies need to be set aside to support these programmes on an invest to save basis, with clear criteria and expectations of return.

Members are advised to ensure that:

- progress against savings plans is regularly monitored, with variances and any mitigating actions reported to Finance Sub Committee.
- members take future decisions that support the aim of maintaining a financially stable and sustainable Council as set out in the MTFS, including a clear funding source.
- business case for Corporate Plan investments should be rigorously reviewed to ensure they deliver value for money to the Council.

4.0 Revenue Budget 2016/17

4.1 The revenue budget 2016/17 is the first year of the Council's four year MTFS. The budget has been developed using a robust process with officer and member involvement.

4.2 Budget Process
An important feature of the budget process is that Heads of Service are responsible, with the support of finance staff, for the preparation and determination of their income and expenditure estimates. The active involvement of Heads of Service in determining their spending plans and income generation estimates ensures ownership of the budget and that the officers responsible for delivery of the services are confident that financial targets are achievable. During the 2016/17 budget cycle all items within the base budget have been challenged by Corporate Management Team (CMT) and any changes to the figures submitted have only been incorporated with the acceptance of the Head of Service. The Finance Manager has also challenged current practices, improved the budgeting process, and provided assurance around the robustness of budget estimates. Councillors have been involved in the budget process through the Finance Sub Committee, the Policy & Resources Committee and the Member Budget Briefing held in January 2016.

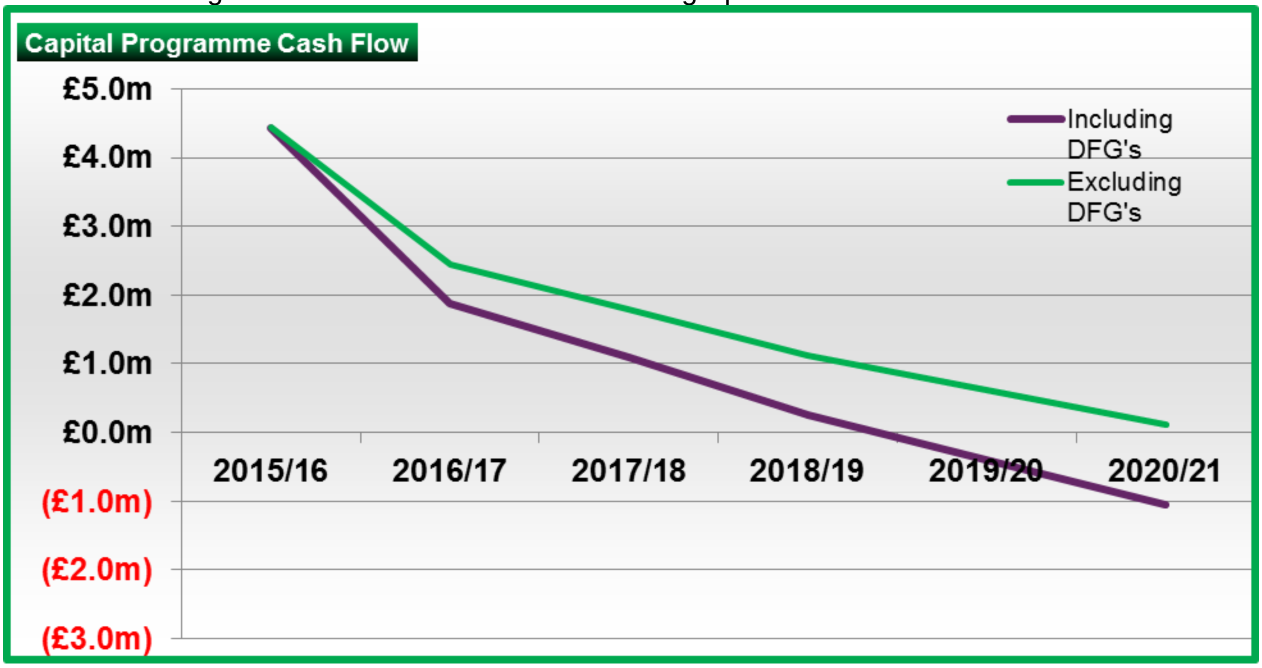
4.3 Budget Proposals
The budget includes £0.6m of savings, many of which have already been delivered as part of the in-year savings programme for 2015/16. The remaining savings proposals are considered to be low risk in terms of delivery.

5.0 Draft Capital Programme 2016/17 to 2025/26

5.1 Historically the Council's Capital Programme has been funded from capital reserves, which accrued from the sale of housing stock in 2001. Four years ago it was recognised these reserves would run out and new funding sources would be required to fund capital investment. A key aim of the Council has been to ensure it does not undertake any long term borrowing to finance its capital expenditure. As such in 2012 it agreed to embark on a strategy to dispose of surplus assets and expected, at the time, to generate around £5m to finance capital investment.

5.2 There has been steady progress in the sale of surplus assets programme and 7 sites have been sold realising £4.5m.

5.3 The realisation of these monies has provided certainty with regards to funding the capital programme over the past 12 months. If the Council were to continue with all its capital spending plans as included in the Approved Capital Programme and Development Pool, it would have sufficient funding until 2018/19. This is shown in the graph below:



5.4 As can be seen from the graph above, the Council would use up its capital reserves over the next 3 years. In line with current capital programme governance it would be imprudent to release any further schemes from the Development Pool which do not have a clear funding source. Each scheme needs to be considered on its own merit prior to moving into the Approved Capital Programme. Although it should be noted that some schemes in the programme are statutory in nature, Disabled Facilities Grant for example, where the Council has little or no discretion about spending the money.

5.5 As the Council has made its intention clear that it does not want to enter into long term borrowing to finance capital investment then the Council needs to determine its strategy for financing its capital programme at some point over the period of the MTFS. There are a number of options to do this, including:

- Managing the release of schemes from the Development Pool which would extend the period of using capital reserves. However there would still be an issue about how the programme would be funded over the longer term.
- Generate more capital receipts by selling assets. However there are few assets the Council owns and there would still be an issue about how the programme would be funded over the longer term.
- Finance the capital expenditure each year directly from revenue. Given the annual capital spend is forecast to be around £1m this would require significant savings to be made from other areas of revenue funded services.

5.6 To seek to mitigate these impacts a review of all capital schemes in the Development Pool will be undertaken early in 2016/17. This will be done through CMT and Finance Sub Committee.

5.7 There is a real danger that the Council is not willing, or in some cases unable, to invest sufficient resources in its capital programme. This could negatively impact on service provision, meeting statutory obligations, business continuity and the ability to deliver further efficiencies which the Council needs if it is to deliver its revenue budget savings targets. The options the Council will explore to finance its capital investment plans include:

- Maximising external funding (e.g. European Funding & Lottery Funding).
- Shifting the burden of capital investment to those who receive the benefit, for example Disabled Facilities Grants from the Better Care Fund.
- Sharing the costs of investment with partners.
- Using the Council Improvement Reserve to provide invest to save funding (subject to strict business case criteria) to enable revenue savings to be delivered.
- Realising monies from further asset sales, although it should be noted these will be minimal.

6.0 Annual Treasury Management Strategy 2016/17

6.1 The Council's Treasury Management Strategy has been updated to reflect the latest borrowing requirements of the capital programme and latest interest rate forecasts, and to update the credit criteria to reflect the changing banking environment whilst ensuring the security of the Council's investments continues to be maintained.

6.2 Forecasting the Council’s future short and medium term investment returns is always a challenge, but even more so in the current climate of economic volatility and uncertainty. Nevertheless, the Treasury Management budget does reflect the capital financing costs to support the approved capital programme and rates of return on investments at this time. The base rate is forecast to remain at its historical low further into the medium term and the budgets will be regularly monitored.

7.0 Forecast Reserves and Balances

7.1 Members will be aware that reserves have been used extensively in previous years to finance the deficit on the revenue budget and to fund the capital programme. In response to this the MTFS approved in February 2012 planned to:

- Reduce the reliance on reserves to finance the revenue budget from over £1m in 2011/12 to nil by 2015/16. This was achieved ahead of schedule in 2013/14.
- Utilise the remaining Capital Programme reserves and replace this funding stream with capital receipts by utilising the Council's surplus assets. This strategy was concluded during 2014/15 and the Council is now drawing down the monies realised to finance its capital investment plans.

These were key elements of the MTFS to ensure the Council's finances remain stable and sustainable in these times of austerity. However, there are still a number of risks, which I have referred to earlier in this report, that still face the Council and need to be mitigated with an appropriate level of reserves.

7.2 Use of Reserves to Finance Spending

The MTFS assumes the level of reserves fund the revenue and capital budgets as follows:

- Revenue – throughout the period of the MTFS there is no planned requirement to fund revenue spending from reserves. The assumption is that any reserves will be utilised to mitigate specific / general financial risks facing the Council or are held for investment to improve the services for the residents of the district. It should be noted that reserves are not planned to balance revenue budgets where there are funding deficits.
- Capital - the capital reserve is expected to be fully utilised in 2018/19. The Council needs to identify further funding sources to finance its capital expenditure commitment and plans beyond that date.

7.3 Minimum reserves

The minimum level of reserves, as assessed after considering the risks facing the Council over the medium term, is proposed to be £1.5m. This is a reduction from £2m in 2013/14 and £1.75m in 2014/15 to reflect reduced risks. The £1.5m consists of two component parts, namely:

- An underlying minimum level of £1m for the long term, and
- In the short to medium term, a minimum level of £0.5m to reflect the uncertainties currently facing the Council. These uncertainties include the delivery of a cost reduction programme to ensure on-going revenue spending is sustainable, generation of additional income from leisure centre investment, implementation/early operation of recent Government policy changes (business rates retention, localisation of council tax discounts/exemptions and council tax support), the introduction of universal credit and potential waste pressures and decisions being made by the County Council which are likely to affect East Northamptonshire

The additional £0.5m to cover short to medium term risks will be reviewed, along with the underlying minimum level, on an annual basis.

7.4 Earmarked Reserves

The number, type and level of earmarked reserves have been reviewed in light of the risks faced by the Council. As part of this review the Council Improvement Reserve is being continued, having been established in 2014/15. This reserve is being set aside to provide the investment the Council is likely to require to transform itself and the district in order to deliver the savings and / or generate additional income to balance its revenue budget. The use of this reserve will be based on strict criteria linked to a business case and will require sign-off by the Chief Finance Officer and Finance Sub Committee. It would be prudent to maintain a proportion of this reserve to cover future gaps in the MTFS until the financial position of the risks are clearer and/or the Council has identified, and delivered proposals, to ensure the on-going sustainability of the revenue budget.

8.0 Conclusion

8.1 Based on the assumptions made in its Budget 2016/17 and MTFS 2016/20 for income and expenditure the Council can set a balanced financial position for both 2016/17 and 2017/18.

8.2 However, due to the continued reduction in government funding and forecast pressures on the re-procurement of its waste contract the Council is facing significant forecasted annual deficit budgets of over £1m in 2018/19 and 2019/20. This is also the time at which the capital programme reserves are due to be fully used.

8.3 In addition there are a number of risks, or "known unknowns", outlined in paragraph 3.4. These risks may have a positive or negative impact on the Council's financial position.

8.4 Whilst in the next two financial years the Council's financial position is sustainable; beyond this the financial position is, at best, uncertain. The Council will need to ensure it makes the right decisions in the short term (next two years) to ensure it is financially stable and sustainable over the medium to long term. Such a strategy should include maximising all income streams, continuing to generate efficiencies and influencing the risks faced to optimise the Council's future financial viability.

8.5 The Council should give proper consideration to accepting the Government four year offer and development of an Efficiency Plan. Whilst at this stage the contents of an Efficiency Plan are not know the Council should develop a clear plan demonstrating how it will manage its financial position over the medium term based on different risk scenarios.

8.6 Provided the Council carefully considers and acts upon the analysis in this report, and officers robustly manage the implementation of the Revenue and Capital Budgets, a positive opinion can be given under Section 25 of the Local Government Act 2003 on the robustness of budget estimates and the level of reserves.

9.0 Equality and Diversity Implications

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

10.0 Legal Implications

10.1 These are set out in Section 1 of the report.

11.0 Risk Management

11.1 This report by its nature considers risk management from a financial perspective.

12.0 Financial Implications

12.1 The report is of a financial nature and the implications are set out within the report.

13.0 Corporate Outcomes

13.1 The Corporate Outcomes that the MTFS seeks to help deliver are:

- Good Quality of Life
- Good Value for Money
- Effective Management
- High Quality Service Delivery
- Strong Community Leadership

14.0 Recommendation

14.1 That Council notes the S151 Officer's opinion set out in Section 8 and carefully considers the content of this report prior to recommending the approval of the Council's Medium Term Financial Strategy 2016/21, the Revenue Budget for 2016/17, Capital Programme 2016/26 and Treasury Management Strategy 2016/17.

(Reason: To ensure the Council complies with statute in setting its Budget.)

14.2 That Council recognises the work undertaken over the last four years to ensure we have a balanced budget and are in a good financial position to face the medium term uncertainties.

(Reason: To ensure the Council has a stable and sustainable Medium Term Financial Strategy and Plan)

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<tr><td rowspan="2">Legal</td><td colspan="5">Power: Local Government Finance Act 1992, Local Government Acts 1972, 2000 & 2003, Localism Act 2011</td></tr>
<tr><td colspan="5">Other considerations: Constitution</td></tr>
<tr><td colspan="6">Background Papers: Reports To Finance Sub Committee and P&R; precept notifications</td></tr>
<tr><td colspan="6">Person Originating Report: Glenn Hammons, Chief Finance Officer.
☎ 01832 742267 ✉ ghammons@east-northamptonshire.gov.uk</td></tr>
<tr><td colspan="6">Date: 16 February 2016</td></tr>
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