East Northamptonshire Council

Finance Sub-Committee
19 December 2016

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 (MTFP) 2017/18 to 2020/21, outline the Revenue Budget 2017/18, Capital Programme 2017/18 to 2026/27 and Treasury Management Strategy 2017/18.

Attachment(s):

Appendix 1 – MTFS Summary 2017/18 – 2020/21
Appendix 2 – Revenue Budget Changes – 2017/18
Appendix 3 – Capital Programme 2017/18 – 2026/27
Appendix 4 – Reserves and Purpose

1. Overview and context

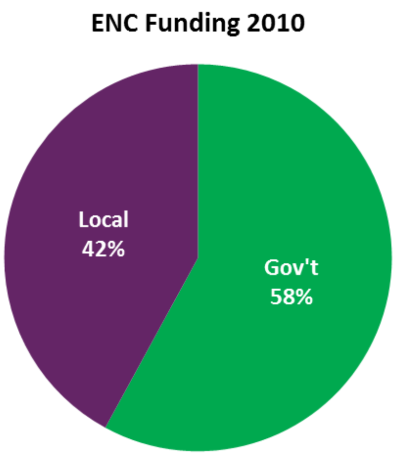
1.1. This report refreshes the Medium Term Financial Strategy 2016/17 to 2019/20 that was approved by Council in February 2016.

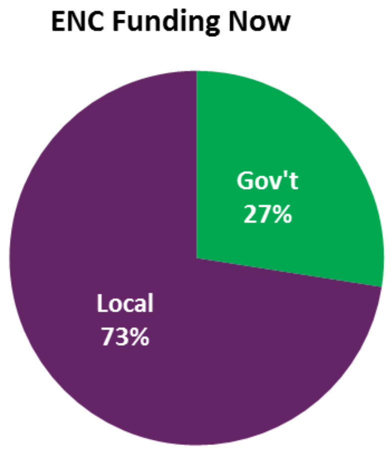
1.2. The MTFS 2017/18 to 2020/21 has been formulated since the announcement of the Spending Review and the Autumn Statement 2016, which continues to set out how the Government will address the ongoing national financial position over the medium term. This mainly focussed on providing more investment to support the economy in the lead up to UK exit from the European Union. Whilst there have been a number of national changes which had to be addressed there was very little detail announced that could be incorporated into the financial forecast. This means that there still continues to be a considerable level of uncertainty surrounding key sources of funding the council will receive during this spending review period.

1.3. The MTFS was last approved in February 2015, when there were positive signs emerging from the large amount of data and intelligence surrounding the UK economy. This led to improved forecasts, which the Chancellor incorporated into the Spending Review announcements at that time. However, following the EU Referendum in June 2016, there has been a fall in interest rates. This, along with other economic changes, has had a negative impact on the outlook for the UK. The current projections are for subdued interest rates over a longer term, anticipation that world growth will become weaker and inflation will continue to rise. The pressure on Local Government finances over the medium term is set to continue.

1.4. The council is now waiting for the provisional local government finance settlement figures which are due to be announced in the coming weeks.

1.5. 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.





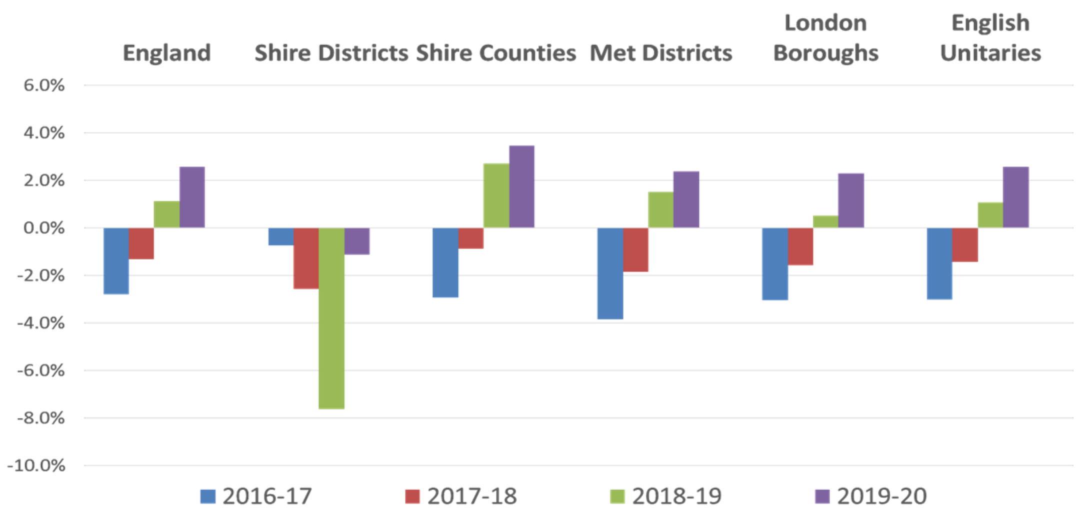
1.6. The Government's changes around the Business Rate Retention Scheme and localisation of Council Tax Support are a major part of the reason for this shift in funding. At the end of MTFS period in 2020/21 it is forecast that 100% of the council's funding will be raised locally.

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 Autumn Statement 2016 confirms that whilst fiscal targets have been revised and no new savings are being pursued, the reductions in funding to Local Government announced last year are still to continue.

2.3. Funding of Adult Social Care continues to be prioritised by the government, with additional funds being made available as well as a shift in funding from district councils to those councils with social care responsibilities. The following graph shows the year-on-year percentage change in Core Spending Power, which is the expected available revenue for local government spending, through to 2019-20, using Office of Budget Responsibility (OBR) estimates. This clearly demonstrates how local authorities' funding is estimated to improve in 2018/19 and 2019/20 with the exception of District Councils, where the position remains negative for the whole of the four year spending term, particularly in 2018/19:



2.4. Other changes, such as a move to 100% business rates retention and a revised New Homes Bonus Scheme, were also announced. Further details on these announcements are set out in section 4 of this report although the council is expecting New Homes Bonus will be included as part of the Local Government Finance Settlement for 2017/18. These major uncertainties and changes will impact Local Government into the longer term. The situation will be closely monitored and any risks and assumptions reviewed as necessary.

2.5. 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.

2.6. 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.

2.7. 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 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.

2.8. 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 has an ambition to continue to deliver growth throughout the District, to generate additional income and move away from the financial constraints under which it currently operates. The Corporate Plan reflects this and sets 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:

	A good quality of life where the district will be:	Priority outcomes
Improvements for the community	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 the setting of 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 sections 1 and 2 of this report are set out in more detail below.

4.2. *Government Funding*

4.2.1. The government has continued to follow a policy of austerity to address the deficit position and public sector net debt. Despite the downward change in the economy as a whole, the government is determined that cuts to public sector spending will continue for the medium term. Whilst it is clear there will be a shift in funding towards social care there is still no further announcement on the move to 100% business rates retention so it remains difficult to predict the impact of the announcements with any certainty.

4.2.2. Included within the provisional settlement for 2016/17 was an offer of a four-year funding settlement up to 2019-20, for any council that wishes to take it up. This offer can only be accepted if the council develops and publishes an efficiency plan. In order for the council to have some assurance on levels of funding over the medium term the council accepted the offer.

4.2.3. The council submitted the efficiency plan by the deadline of 14 October 2016. The plan is based on delivery of a number of work streams in order to close the funding deficit anticipated from 2018/19 onwards. The council will now concentrate on monitoring and delivery of the plan. Further details of the efficiency plan can be seen at section 6.13.

4.3. ***Changes to Business Rates***

4.3.1. 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. The current arrangement has increased the benefit to the council by £846k to date.

4.3.2. The government also undertook a consultation in 2016 about changes to the local government finance system in preparation for the move to 100% business rates retention. As part of the consultation, consideration was given to the transfer to councils of additional responsibilities which aim to drive local economic growth and support the community. The outcome of the consultation and the transition to 100% business rates retention is still to be announced. The council will consider the implications of the proposed reforms, and any risks or assumptions will be reviewed as necessary going forward as further detail becomes available. The pooling arrangement will also need to be reviewed in light of this proposal.

4.3.3. A revaluation carried out by the Valuation Office is also due to come into effect from 1 April 2017. This is when the government adjusts the level of business rates to reflect changes in the property market.

4.3.4. The appeals process is also being reformed to come into effect from 1 April 2017 alongside the new rating list. The aim is to provide a streamlined and efficient system in which key issues are identified early and resolved as quickly as possible.

4.3.5. The council currently has over 280 appeals outstanding (based on the Valuation Office data provided at 31 October 2016 for the appeals listing) which are estimated to have a financial impact of £2.4m (of which ENC's share is £0.96m). The number is expected to increase following revaluation. The Valuation Office has been very slow in responding to the number of outstanding appeals. It is expected that these will take a while to resolve. In the meantime, the council will need to ensure that there are resources available to meet these costs through setting up sufficient provisions or reserves to help manage them.

4.4. ***Council Tax***

4.4.1. The council continues to have one of the lowest district council tax levels in the country. For 2016/17, the council ranked 19th lowest compared to its 200 district authority peers.

4.4.2. In previous years, the Secretary of State proposed that a 2% referendum trigger will apply for all principal local authorities. However, for 2016/17, the Secretary of State set a core referendum principle of no more than 2% with the flexibility that shire district councils with the lowest Band D council tax could apply an alternative option to increase by £5, whichever was the higher. It is anticipated that the council will be offered this flexibility again for 2017/18.

4.4.3. In order to provide local authorities with their indicative Settlement Funding Assessments for the remainder of the Parliament, the government also made a number of assumptions regarding council tax income and what they expect councils to do. The assumptions which have an impact on this council are set out as follows:

- An average annual growth in the council tax base between 2013-14 and 2015-16 throughout the period to 2019-20
- The potential additional council tax available from a £5 cash principle for districts with a lower quartile Band D council tax level.

4.4.4. In 2016/17 the council did apply a £5 increase to council tax to support its budget proposals. For 2017/18 the current assumption in the MTFS is a 0% increase, with an estimated increase to the council tax base of 200 Band D-equivalent properties per annum. This will be reviewed before the final budget is approved in February 2017.

4.5. ***Local Council Tax Support Scheme***

4.5.1. 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.

4.5.2. The scheme currently adopted by East Northamptonshire allows for working age customers to pay at least 20% of their council tax liability. This was following a consultation with the public to increase the council tax liability from 12.5% to 20% in 2016/17 where the majority of respondents were in support of the proposals.

4.5.3. The council is currently consulting on some further amendments to the scheme and whilst there are no proposals to amend the 20% further in this consultation, the council will continue to monitor and assess the outcome of any changes and the potential financial impact on the scheme on an annual basis to ensure the scheme continues to be self financing.

4.6. ***New Homes Bonus***

4.6.1. As mentioned at paragraph 2.4, the Chancellor announced changes to the New Homes Bonus Scheme within the Spending Review and Autumn Statement 2015 and then undertook a consultation around reforms to the scheme which would further incentivise and reward communities for additional homes as well as reducing the length of payments from six to four years.

4.6.2. Consideration was also given to reducing the cost of the scheme by £800 million, which would be used towards funding 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.

4.6.3. The council is awaiting further announcements on the revision to the scheme and anticipates further news as part of the Finance Settlement due in December 2016.

4.7. ***Welfare Reform***

4.7.1. 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.

4.7.2. 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.

4.7.3. The district currently has a 'live service' for Universal Credit, which means new claims are accepted along with some where circumstances have required a change. A full service is scheduled to be rolled out in the area from February 2018 with full migration of working age housing benefit cases scheduled to be completed in 2022.

4.7.4. Due to these timescales, it is anticipated there will be little impact on the MTFS in the short term. However, this will be reviewed throughout the process and any changes reflected in the MTFS going forward.

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

4.8.1. Funding to help authorities meet the cost of providing DFGs for disabled people is currently paid by Department of Health (DH) as a capital grant. As part of the Spending Review and Autumn Statement 2015, the government announced an increase in funding to £500m by 2019/20 for the DFGs. This funding is provided as part of the Better Care Fund (BCF).

4.8.2. The council has seen an increase in demand for DFGs in recent years due to the aim of keeping people living at home for longer. The council increased the budget for DFG's to £500k each year from 2015/16 as a result of the increase in new referrals coming from NCC Occupational Therapists. Despite this additional funding, the council still faces increasing pressures.

4.8.3. Guidance released on the Better Care Fund confirms that councils will still receive DFG funding from the pooled budget to enable them to continue to meet their statutory duty to provide adaptations to the homes of disabled people. However, the council is waiting for confirmation on how much funding it will receive in 2017/18 in order to address this issue. The funding is paid directly to Northamptonshire County Council and, despite guidance on the funding amount to be paid to District and Borough Councils, NCC has said that it intends to hold back funding during 2016/17 should targets within the BCF not be met. This places a risk on the MTFS for 2017/18 as it is assumed the same allocation of funding will continue. The council will consider action against NCC if funds continue to be withheld.

4.9. ***National Living Wage and Workforce***

4.9.1. Previous Government announcements included pay awards of 1% each year (up to 2020) as well as proposals to move towards a National Living Wage of over £9 by 2020.

4.9.2. 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 the indicative 1% limit is no longer relevant. The Local Government Employers' organisation 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.

4.9.3. In February 2016, the Council approved new pay scales based on the government's NLW legislation and the National Employers' pay offer following a consultation process with staff. The financial implications of the revised pay scales are incorporated into the MTFS for each year.

4.10. ***Housing and Planning***

4.10.1. The government continues to announce a range of new policy, financial support and grant measures to support the supply of new houses and home ownership as well as tackling affordability and homelessness. The strong indication is that increasing the supply and construction of new houses is one of the government's major priorities.

4.10.2. The enactment of key areas of the Housing and Planning Act is awaited, including the government's direction on the provision of 'Starter Homes' as part of a broader package of affordable housing. The Homelessness Reduction Bill is currently going through Parliament, and is likely to increase the Council's statutory duties in respect of homeless people. A new Housing White Paper will be issued in early 2017 and it is expected that this too should provide further clarity on the government's direction on a range of housing supply and delivery mechanisms. This council does not have its own housing stock, so affordable housing within the district is provided through a number of housing associations who may also be affected by potential legislative changes and welfare reform, and in particular the ability of tenants to meet their housing costs. The financial impact of these will be monitored during the year.

4.10.3. The council is engaged in the process of master-planning for two major new development areas. The Rushden East Sustainable Urban Extension in the south of the district will deliver some 2,500 new homes along with community facilities and new employment opportunities. The Deenethorpe Garden Village in the north of the district will deliver some 1,500 new homes and related facilities. These major developments are included in the North Northamptonshire Joint Core Strategy, which was adopted in July 2016. Further development opportunities will be identified in the emerging East Northamptonshire District Plan and through the Neighbourhood Planning process. As part of this, the council will need to consider the impact on housing supply, particularly social housing. This may have a financial impact for the council, although at this stage the amount is unclear and will be subject to further work during the course of the financial year. Further detail is required before the council can assess what impact these changes will have on the MTFS.

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, previous freezing 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 2017/18 set out in this report have been developed to address the financial challenges identified above. The MTFS includes the council's capital spending plans as these have a direct and sometimes significant impact on revenue expenditure.

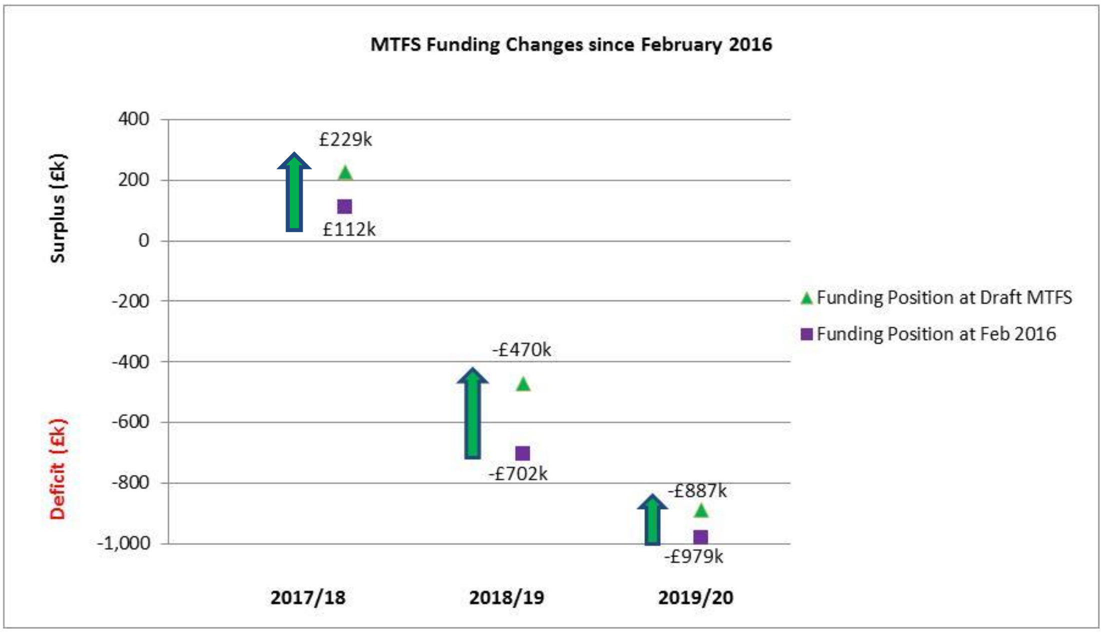
5.4. The MTFS includes:

- 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 2016/17 - 2019/20, which was approved by Council on 24 February 2016. 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.

5.6. The graph below demonstrates the improvement to the projected funding gap over the medium term since February 2016. Further detail on the breakdown of the changes can be seen at paragraph 6.13.1:



6. Review of Assumptions

6.1 In order to maintain the financial position, officers and members continue 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.

6.2 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 in the first year of the MTFS period. Savings will need to be identified to address the projected shortfall from 2018/19
Council Tax	• It is assumed that there is no increase to council tax over the MTFS period. • Council tax is assumed to be £128.65 for a Band D property for 2017/18 and subsequent years • 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 whilst this is available • Reductions in government funding each year over the medium term reflecting amounts as per 4 year settlement offer by government
Capital Programme	• Invest up to £11.1m 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 manage the shorter-term risks

6.3 ***Employee Costs***

6.3.1 Pay inflation equates to around 1.5% each year, which is based on modelling assumptions around the 1% pay inflation announcements last year as well as the implementation of the new National Living wage, as set out in Section 4.9 above.

6.3.2 Vacancy factors were incorporated into the 2016/17 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 2017/18 onwards whilst the current levels are achievable.

6.3.3 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. This put additional pressure on budgets.

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

6.3.5 Estimates received to date indicate a pressure on the pension deficit of around £86k each year over the medium term, which is currently incorporated into the MTFS. However, the pension fund is currently being assessed and the council awaits further detail of the impact to the MTFS going forward. There is currently an indication that the future service costs (% of payroll costs) will increase but the deficit (lump sum) cash payment is likely to reduce with effect from 1 April 2017. The MTFS will be updated accordingly before final approval in February 2017.

6.3.6 The council has an agreement which was approved at the Policy and Resources Committee meeting on 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 March 2017, at which point it is anticipated that the liability will transfer to the council. The liability was valued at £175k at 31 March 2016.

6.3.7 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, as mentioned at 6.3.5, with the pension fund currently under review and the likely changes in the deficit payment and future service cost, along with the previous announcement by government to 'pool' Local Government Pension Scheme Fund assets into British Wealth Funds and continuing low returns on investments, it is difficult to estimate with any certainty the financial impact on the council. Once known, any changes will be incorporated into the MTFS accordingly.

6.4 ***Contract Costs***

6.4.1 Contractual commitment costs have been reducing in recent years, with new and renewed contracts being procured, and have now reach a stable position. The majority of contracts have been in place for a number of months or years and there is some certainty when forecasting future inflationary increases, especially in the short to medium term when inflation is anticipated to remain low.

6.4.2 Contractual inflation has only been built into the MTFS where it is mentioned within the contract. The current 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 small increase (average of 2%) to take account of all these factors. The contract is due for renewal in 2018/19 when this will be given further consideration.

6.4.3 It has been assumed that all other contracts will be maintained within current levels of expenditure.

6.5 *General Inflation*

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

6.6 *Fees and Charges*

6.6.1 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 continued as part of setting the fees and charges for 2017/18 to ensure any changes have been incorporated into the MTFS.

6.7 *Investment Income*

6.7.1 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 average return on investment for 2017/18 is likely to be around 0.5%, increasing to around 2.0% by 2019/20. There are significant risks in estimating the rate at which the economic position will improve, and we have taken a relatively cautious view based on overall performance against the bank rate as well as advice from our Treasury Management advisors, Capita Asset Services.

6.7.2 The following table shows the impact on the council's return on investment if the interest rate altered by 0.25% or if the amount invested changed by £1m:

	2017/18	**2018/19**	**2019/20**	**2020/21**
Increase/Decrease of 0.25%	£50,000	£45,000	£35,000	£30,000
Increase/Decrease of £1m	£ 5,000	£5,000	£8,750	£11,250

6.8 *Council Tax Base*

6.8.1 The assumptions relating to the Council Tax Base have been reviewed. The estimated Billing Authority tax base for 2017/18 is 30,871 compared to 30,084 for 2016/17 which is a 2.6% increase. 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.

2016/17 Tax base estimate	**30,084**	
16/17 adjustment	189	Actual new property occupations in addition to the 433 included in the original 2016/17 estimate.
New Properties	342	Anticipated number of new property occupations in 2017/18 (adjusted for anticipated relief and discount levels)
Council Tax Support	293	Significant reduction in CTS expenditure.

Discounts & Exemptions	(37)	Slight increase in exemptions and single occupier discounts. The increase may have been greater had it not been for a proactive approach to verifying single person discounts.
2017/18 Tax base estimate	**30,871**	

6.9 ***Council Tax***

6.9.1 It has been assumed within the MTFS that Council Tax will remain unchanged for 2017/18 and subsequent years.

6.9.2 As explained in paragraph 4.4.2, it is anticipated that a core referendum principle of no more than 2% will be set for 2017/18. However, the council also anticipates that that it will again be offered the opportunity to either increase its Band D council tax by £5 or 2%, whichever is the greater.

6.9.3 The table below shows the additional income that would be raised if the council were to increase council tax up to the 2% referendum limit:

	2016/17 £	**2017/18 £**	**2018/19 £**	**2019/20 £**
Total (per year)	79,034	79,546	80,058	80,570
Total (Cumulative)	79,034	158,580	238,639	319,209
Increase in %	1.99%	1.99%	1.99%	1.99%
Pence per week	4.9p	4.9p	4.9p	4.9p

6.9.4 The table below shows the additional income that would be raised if the council were to increase council tax using the alternative option of £5:

	2016/17 £	**2017/18 £**	**2018/19 £**	**2019/20 £**
Total (per year)	154,355	155,355	156,355	157,355
Total (Cumulative)	154,355	309,710	466,066	623,421
Increase in %	3.89%	3.89%	3.89%	3.89%
Pence per week	9.6p	9.6p	9.6p	9.6p

6.10 ***Council Tax Support Funding***

6.10.1 ENC will receive Council Tax Support Funding through the Revenue Support Grant (RSG) allocation in 2017/18. This funding is not ring-fenced and can be used to support any spending the council incurs. However, the level of funding included within RSG is not clear. As RSG funding disappears in future years, it will also become necessary to review an alternative method of assessing how the Local Council Tax Support Scheme is calculated (section 4.5).

6.10.2 The Government has indicated that a proportion of Council Tax Support 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 2017/18 or thereafter.

6.11 ***Business Rates***

6.11.1 An officer working party comprising staff from Planning, Revenues and Finance teams monitor business rate activity with the aim of increasing business intelligence and understanding, and to forecast growth in future years.

6.11.2 The MTFS currently includes two elements of growth. A proportion of forecast growth relates to the Rushden Lakes development whilst other growth is forecast across the district. There is an associated risk that the timing of these growth elements could be different to the timescales that have been estimated within the MTFS. The latest estimates for each of these growth areas are as follows :

- Rushden Lakes 292k
- Further growth in the district 346k

6.11.3 The table below shows the financial impact if the forecast growth increased or decreased by 10%:

	2016/17	2017/18	2018/19	2019/20
Increase/Decrease of 10%	£81,833	£114,222	£117,591	£140,035

6.11.4 Revaluation will come into effect from 1 April 2017. This is when the government adjusts the value of business rates to reflect changes in the property market. Draft revaluation schedules have shown an increase in rateable value to properties in the district of around £100k overall. The MTFS does not include assumptions on changes to the property market as government have indicated this will be cost neutral to the council. Growth estimates are being reviewed alongside the revaluation schedules and will be refreshed with any changes incorporated into the MTFS as required.

6.11.5 The council has a significant number of outstanding appeals which are estimated to increase following revaluation in April 2017 which will take a while to resolve. The council will need to ensure it has sufficient resources available to meet these costs.

6.12 *Government Funding*

6.12.1 The MTFS incorporates a reduction in government funding ranging between 10% and 19% per annum. This is based on the provisional funding allocations that were published as part of the four year settlement offer which the council has accepted.

6.12.2 There remains some uncertainty over this figure whilst the council awaits the release of the provisional settlement figures and further announcements concerning the outcome of the consultations on New Homes Bonus and Business Rates Retention.

6.12.3 The council is expecting the provisional finance settlement figures for 2017/18 in the coming weeks. Any changes to the current estimates will be incorporated into the MTFS before it is approved in February 2017 where possible.

6.13 *Implementing the Efficiency Plan and refreshing the Medium Term Financial Strategy*

6.13.1 The effect of the changes outlined above has improved the projected funding surplus within the MTFS for 2017/18 and reduced the deficit position for subsequent years, as outlined in the graph at paragraph 5.6.

	2017/18 £k	2018/19 £k	2019/20 £k
Starting position - funding (surplus)/deficit at Feb 2016	**(112)**	**702**	**979**
Waste Contract - adjustment for estimated increase in contract	0	(167)	0
Net increase in waste income	(22)	(22)	(22)
Net changes to recycling income	(30)	10	5
Staffing Costs	252	229	229
Leisure Contract	(274)	(274)	(274)
Housing Benefits	(145)	(145)	(145)
Northants Waste Partnership Costs	13	13	13
NNDC Contributions	(30)	(30)	(30)

SEMLEP Membership	10	10	10
Viability Assessments	20	0	0
Amendment to Council Tax Base	(75)	(75)	(75)
Technical Adjustment for Cost of Local Elections	30	30	30
Increase in planning fee income	(14)	(14)	(14)
Increase in land charge fees	(10)	(10)	(10)
Members Allowance Increase	11	11	11
Updated forecast for interest received	125	195	178
Other movements	22	8	3
Updated position – (surplus)/deficit	**(229)**	**470**	**887**

6.13.2 As mentioned at 4.2.3, the Council submitted its efficiency plan on 14 October 2016 in order to take advantage of the four year settlement offer by DCLG and achieve some level of certainty on funding sources over the medium term.

6.13.3 The efficiency plan sets out a number of work streams for the council to focus on which will help to reduce the projected funding gap from 2018/19 onwards. By the end of the spending review the councils aim is to achieve at least a balanced budget position but with an aspiration for achieving a surplus position.

6.13.4 The following projections are based on a prudent view of what can be achieved as a minimum through the delivery of different work streams within the efficiency plan:

Work streams	**2017/18 £k**	**2018/19 £k**	**2019/20 £k**	**2020/21 £k**
Economic Growth	14	28	43	56
Contract Re-provision	194	339	359	379
Being More Efficient	70	140	210	280
Commercial Approach	0	30	45	110
Partnership Working	70	145	163	163
Estimated savings/income	**348**	**682**	**819**	**988**
Achieved to date	349	349	349	349
Balance to be achieved	**-1**	**333**	**470**	**639**

6.13.5 The MTFS position has changed since the budget was approved in February 2016 on which the efficiency plan was based. This has resulted in a gap of £470k in 2018/19 and £887k in 2019/20. The efficiency plan currently shows a lower balance to be achieved from the work streams (£333k for 2018/19 and £470k for 2019/20). A further review of the efficiency plan and work streams will be undertaken before the MTFS is approved in February 2017 to address this.

6.13.6 However, delivery of the efficiency plan for 2017/18 against projections has been positive and is shown below:

Work streams	**Estimated 2017/18 £k**	**Delivered 2017/18 £k**
Economic Growth	14	75
Contract Re-provision	194	274
Being More Efficient	70	0
Commercial Approach	0	0
Partnership Working	70	0
Estimated savings/income	**348**	**349**

6.13.7 The council has recently tendered for the provision of its leisure service resulting in estimated savings of £274k from 2017/18 onwards. The council tax base has also been adjusted to reflect the forecast tax base for 2017/18 which has resulted in an additional £75k of income to the council. These changes have been incorporated in to the draft MTFS.

6.13.8 The council has made good progress on delivering against the efficiency plan target for 2017/18. The position will continue to be reviewed with a further update provided in the MTFS in February 2017.

7 Medium Term Financial Strategy (MTFS)

7.1 The MTFS for 2017/18 – 2020/21 is shown in **Appendix 1**.

7.2 Work is continuing around the delivery of the efficiency plan and to identify and create further savings over and above those shown above.

7.3 Items which continue to be reviewed include:

- Waste Management
- ICT
- Business Transformation
- Contracts
- Fees and charges
- Asset Management

8 Risks

8.1 *Government Funding*

8.1.1 The MTFS assumes reductions in Government funding ranging between 10% and 19% each year in accordance with the provisional finance settlement allocations and four year settlement offer.

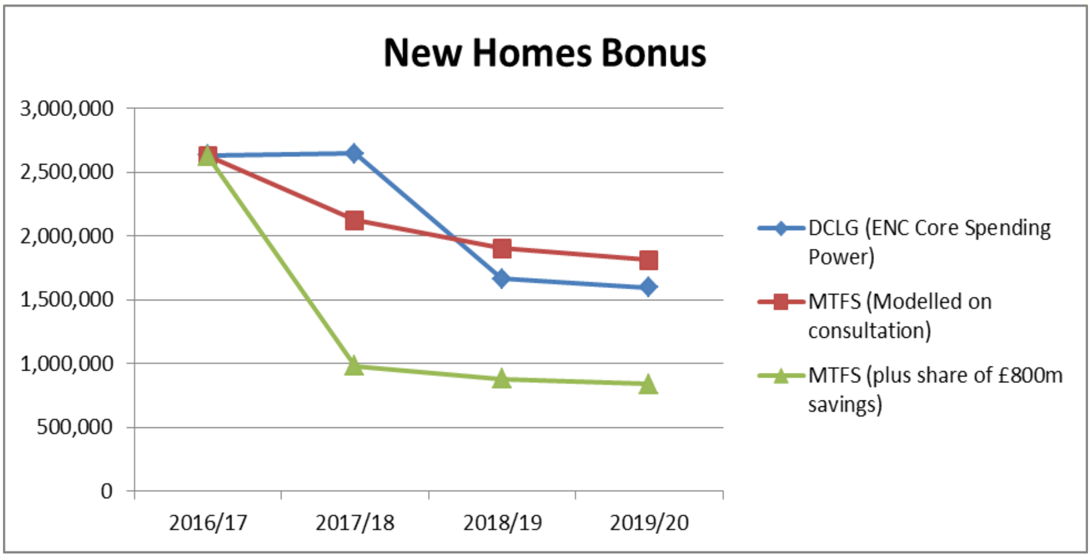
8.1.2 Not all detail on funding resources has been released and the council awaits further announcements in the coming months. As mentioned throughout the report, until further detail is announced specifically around New Homes Bonus and Business Rates Retention, there remains uncertainty in trying to predict future levels of Government funding. The council will review the MTFS regularly and update it accordingly.

8.1.3 As outlined in paragraph 6.10.2, the MTFS assumes that Council Tax Support Grant will not be passported to precepting Town and Parish Councils in 2017/18. 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 government has not yet released any details on funding for 2017/18 following consultation on a number of changes to the New Homes Bonus Scheme from 2017/18 onwards. It is expected that further details will be announced as part of the Finance Settlement in December. The changes which were consulted on included a reduction from the current six year scheme to a new four year scheme and also considered a preferred option for savings of at least £800 million to be used for social care.

8.2.2 The graph below shows a range of possible financial outcomes for the council following the consultation:



8.2.3 The draft MTFS assumes a level of New Homes Bonus funding in line with the proposals set out in the consultation. 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.

8.2.4 The council has also taken a flexible approach to funding Community Projects as the MTFS currently assumes that 50% of New Homes Bonus will be set aside for this purpose. The council will review the financial impact once further detail on future allocations are announced and will further consider whether the allocation to Community Projects is appropriate in future years.

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 (pro rata for 2018/19) until further options are evaluated. There is a risk that this cost could be higher.

8.4 ***Pension Contributions and third party liabilities***

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 pension fund is currently being assessed and the council awaits further detail of the impact to the MTFS going forward. There is currently an indication that the future service costs (% of payroll costs) will increase but the deficit (lump sum) cash payment is likely to reduce with effect from 1 April 2017. The MTFS will be updated accordingly before final approval.

8.4.2 The current contract with Aspirations Wellbeing is due to end in March 2017 at which point it is anticipated that the liability will transfer to the council. The liability was valued at £175k at 31 March 2016. 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.

8.4.3 Any changes to pension costs within the current contract for waste are borne by the current provider. However, any future costs or implications under the new contract will need to be reviewed and incorporated into 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.

8.5.2 The council will again review any budget announcements made by the County Council in order to assess the likelihood of risk or impact to the district in particular the allocation of the Better Care Fund. It is recognised that this cannot be quantified until the County Council approves its final budget in February/March 2017.

8.6 ***Business Rates***

8.6.1 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. There are also changes by Government such as the forthcoming revaluation in 2017 as mentioned at paragraph 6.11.4 where the outcome of the review is anticipated to be cost neutral to the council. These changes can be significant and are often difficult to predict. The council takes action to ensure any potential changes are closely monitored and analysed to ensure that forecasting of future business rate income is robust and accurate.

9 **Revenue Budget 2017/18**

9.1 ***Revenue Outturn 2016/17***

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 2016/17 budget was set with a surplus of £834k, which will contribute towards reserves at the end of the financial year.

9.1.3 Budget monitoring is currently showing a forecast underspend of £98k. This demonstrates that the council is managing within current resources. The majority of this underspend is attributable to planning fee income being higher than budgeted and is one-off in nature as a result of one large planning application. Any on-going savings are incorporated into the budget.

9.1.4 At present the £98k underspend will form a contribution to revenue reserves at the end of the financial year along with the £834k surplus mentioned above.

9.2 ***Revenue Budget 2017/18***

9.2.1 The council needs to spend £9.2m in 2017/18 to maintain current services. A summary of the revenue budget for 2017/18 is set out below:

2016/17 £		2017/18 £
1,501,426	Customer and Community Services	1,270,065
2,681,500	Environmental Services	2,711,620
946,387	Information Technology	1,017,379
1,794,109	Resources and Organisational Development	1,745,444
1,275,545	Planning Services	1,396,882
1,001,060	Corporate and Democratic Core	1,058,305
9,200,027	**Total Net Expenditure**	**9,199,695**
834,144	Transfer to Earmarked Reserves	153,658

1,313,022	Community Projects	1,060,531
(144,500)	Net Interest (Received) / Paid	(100,000)
11,202,693	**Budget Requirement**	**10,313,884**

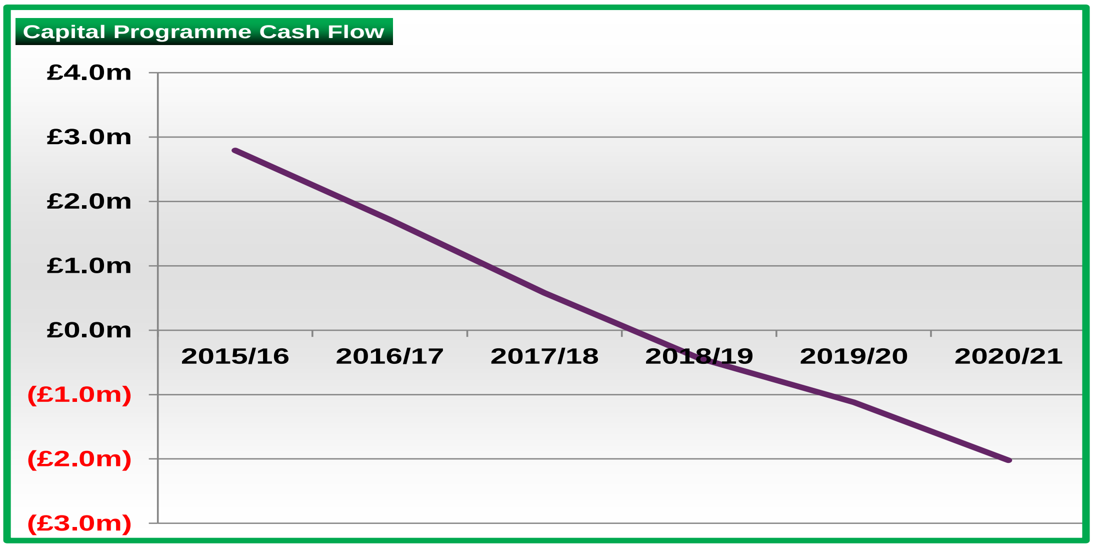
9.2.2 The total net service expenditure in the revenue budget for 2017/18 is £0.3k lower than the approved budget 2016/17. This is due to the following changes:

	£k
Revenue Budget Net Service Expenditure 2016/17	9,200
Service Pressures and Budget Increases	666
Savings and Additional Income (excl. Government Funding and Council Tax)	(666)
Revenue Budget Net Service Expenditure 2017/18	**9,200**

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

10 Capital Programme 2017/18 to 2026/27

10.1 The council's projected capital cash flow as at February 2016 is shown in the following graph.

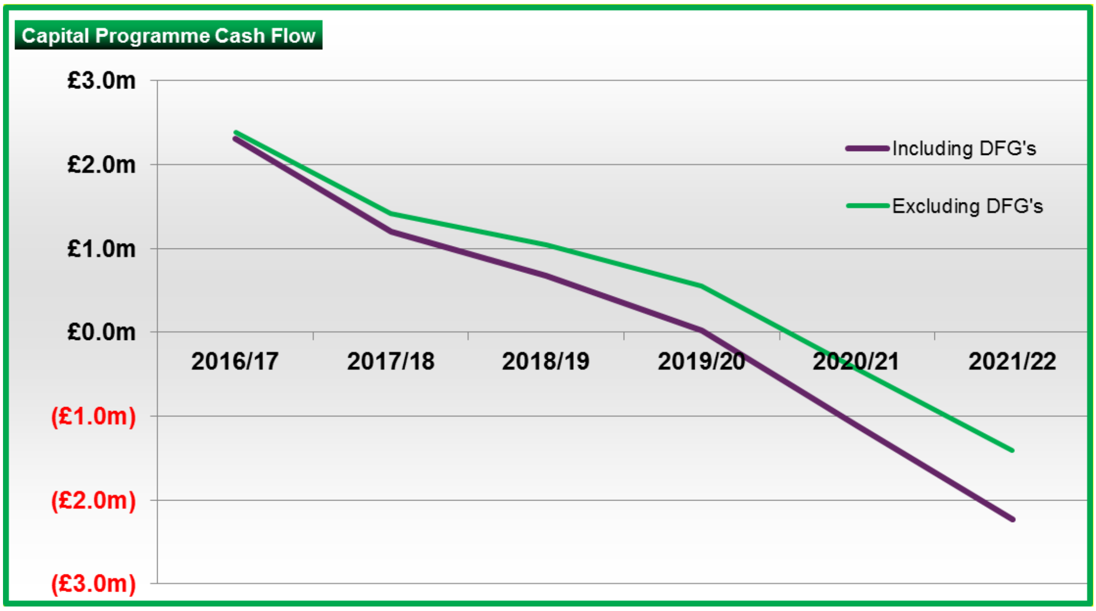


10.2 For 2016/17 the capital programme was split into two sections – the approved capital programme, for those schemes that have specific funding which has been released; and the development pool of proposed schemes. These schemes would remain within the development pool until such time as funding became available, at which point they would go to Finance Sub-Committee for approval to move into the approved programme.

10.3 During 2016/17 there were six batches of capital schemes that were released into the approved programme following approval by Finance Sub Committee. Three were transferred from the development pool and three were new unplanned capital projects (Nene Centre Pool Filter repairs, Housing Investment at Duck Street and Planning Data Project).

10.4 On 17 October Council approved the ICT Strategy and work is underway to start the implementation of that strategy. In order to determine to savings attributable to revenue budgets going forward, further work is being undertaken which will provide more detail on both capital and revenue expenditure going forward. The MTFS will be updated to reflect any changes before Council approve the Final MTFS in February 2017. The programme has been revised to take account changes to other projects including a refresh of the asset management plan.

10.5 The latest position on the capital cash flow is shown below:



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 2019/20 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 The graph also shows the impact to the capital programme if disabled facilities grants were not included. On this basis the resources would run out during 2020/21.

10.8 ***Capital Outturn 2016/17***

10.8.1 The capital programme 2016/17 is currently forecasting an underspend of £197k although it is expected the majority of this will be requested to be carried forward into 2017/18 in order to continue with the Disabled Facilities Programme.

10.8.2 The 2016/17 capital programme is summarised in the table below:

	2015/16
Approved Capital Programme	£1,715,322
Total Expenditure	**£1,715,322**
Funded by:	
Revenue Contribution	£21,764
DFG – Better Care Fund from NCC (inc c/f 15/16)	£515,317
Capital Reserves	£1,178,241
Total Funding	**£1,715,322**

10.8.3 Due to the capital cash flow position outlined in the graph above, any capital underspend for 2016/17 will reduce the need to borrow (use surplus cash reserves) in the short term and would not be a benefit to the reserves position.

10.9 ***Capital Programme 2017/18 and beyond***

10.9.1 The main aim of the Capital Programme 2017/18 to 2026/27 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.

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

10.9.3 The development pool has been reviewed and updated by CMT in line with current and future service planning with the exception of ICT which is currently being aligned with the implementation of the ICT Strategy with updates due to be finalised ahead of the MTFS being approved by Council in February 2017. Further information about individual schemes can be requested from the relevant Head of Service. The revised position is shown in **Appendix 3**.

10.10 ***Revised Capital Position***

10.10.1 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:				
Disabled Facilities Grant	£500,000	45.6%		
Purchase of Wheeled Bins	£270,000	24.7%		£1,095,000
Stanwick Lakes – Infrastructure	£25,000	2.3%		
Superfast Broadband	£300,000	27.4%		
Development Pool	£669,000		£9,342,800	£10,011,800
Total Expenditure	£1,764,000		£9,342,800	£11,106,800
Funded by:				
Capital Reserves (including Proceeds from Asset Sales)	£1,414,000	Future funding streams will be agreed annually as part of the budget setting process		
Grant and Revenue Contribution	£350,000			
Total Funding	£1,764,000			

10.10.2 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 with further detail for each reserve shown in **Appendix 4**:

	31/03/17 £000	31/03/18 £000	31/03/19 £000	31/03/20 £000
Earmarked Reserves - Delivering the Corporate Plan:				
Forecast year end (latest outturn report)	*98*	*98*	*98*	*98*
Delivering the Corporate Plan - NEW	*2,941*	*2,853*	*2,653*	*453*
Community Projects	*2,516*	*2,016*	*1,516*	*1,016*
Elections Reserve	*64*	*94*	*124*	*34*
Delivering the Corporate Plan Total	***5,619***	***5,061***	***4,391***	***1,601***
Earmarked Reserves - Delivering the MTFS/Efficiency Plan				
Projects & Other Investment Opportunities - NEW	*2,601*	*1,978*	*40*	*40*
Delivering the MTFS/Efficiency Plan Total	***2,601***	***1,978***	***40***	***40***
Earmarked Reserves for Managing Risk:				
MTFS Cashflow/timing of savings - NEW	*700*	*400*	*200*	*0*
Capital Financing	*387*	*387*	*387*	*387*
BRR Reserve	*600*	*600*	*600*	*600*
Future Contract Procurement	*100*	*0*	*0*	*0*
Insurance Reserve	*112*	*100*	*100*	*100*
Managing Risk - Total	**1,899**	**1,487**	**1,287**	**1,087**
Total Earmarked Revenue Reserves	**10,119**	**8,526**	**5,718**	**2,728**
Underlying minimum level of reserves	1,000	1,000	1,000	1,000
Enhanced minimum level of reserves	500	500	500	500
Total Revenue Reserves	**11,619**	**10,026**	**7,218**	**4,228**
Capital Reserves	150	(0)	(0)	(0)
Capital Receipts Reserve	2,162	1,198	552	(0)
Total Capital Reserves	**2,312**	**1,198**	**551**	**(1)**
Total Reserves	**13,931**	**11,224**	**7,770**	**4,228**

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 Treasury Management Strategy 2017/18

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 Treasury Advisors and will be presented along with the final budget in February 2017.

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 2017/18
- Draft Capital Programme for 2017/18-2026/27 (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)

<table>
<tr><td rowspan="2">Legal</td><td colspan="5">Power: Local Government Finance Act 1992, Local Government Finance Act 2012</td></tr>
<tr><td colspan="5">Other considerations: Localism Act 2011, Local Government Act 1988</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: 07.12.2016</td></tr>
<tr><td>CFO
9/12/16</td><td></td><td>MO
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