

Report to: **Overview and Scrutiny Panel**
Date: **4 August 2016**
Title: **MEDIUM TERM FINANCIAL STRATEGY
FOR THE FIVE YEAR PERIOD 2017/18 TO
2021/22**
Portfolio Area: **Support Services – Cllr S Wright**
Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

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RECOMMENDATION

It is RECOMMENDED that the Overview and Scrutiny Panel:-

- i) Note the process and timetable for the annual review of the Medium Term Financial Strategy (MTFS)**
- ii) Indicate whether there are any early observations or principles that Members of the Overview and Scrutiny Panel would like officers to take into account when updating the MTFS**
- iii) Note the process for the Four Year Settlement funding offer from the Government.**

1. Executive summary

- 1.1 The Council's Medium Term Financial Strategy (MTFS) is annually reviewed and updated. It is based on a financial forecast over a rolling five year timeframe (to 2021/22).
- 1.2 The MTFS is intended to provide a framework within which decisions can be made regarding the future service provision and council tax levels whilst building an approach that guarantees South Hams District Council's longer term financial viability.
- 1.3 The report sets out the process and timetable for updating and reviewing the MTFS. The MTFS will be drafted over the next few weeks.

2 PROCESS FOR UPDATING THE MEDIUM TERM FINANCIAL STRATEGY (MTFS)

- 2.1 The Budget for 2016/17 was approved by Council on 11th February 2016. This is the starting point for producing the refreshed MTFS and the detailed budget proposals for 2017/18. The 2016/17 Net Budget approved by South Hams District Council was £8.752 million. The following table contains an extract from the 11th February 2016 Council report, as shown in Appendix A:

	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Annual budget gap (As at February 16)	155,155	541,170	135,247	178,263
TOTAL BUDGET GAP TO 2020/21				1,009,835

- 2.2 The £1 million budget gap was the budget position at February 2016. During August the MTFS will be updated for decisions since February 2016 (e.g. the savings from leisure) and for any known changes in cost pressures and savings. Assumptions that feed into the MTFS will also be updated e.g. inflation predictions, interest rate predictions etc.

- 2.3 The updated MTFS will be presented to the Executive in September 2016 and a full review of the MTFS will be undertaken by all Members at the Members' Budget Workshop which will be set up for late September/early October.
- 2.4 The budget setting process is an iterative process that will constantly change over the next five years. As the Council becomes aware of new cost pressures or further reductions in funding over the next 5 years, this will increase the predicted budget gap. The converse is true for any savings or additional income which are identified over the next five years.
- 2.5 The modelling in Appendix A is an extract from the Council report on 11th February 2016. This modelling made various assumptions as set out below.

£5 council tax referendum limit for District Councils for the four years

- 2.6 The final Finance Settlement announced in February 2016 stated that the Council Tax referendum limit for all District Councils for the next four years (2016/17 to 2019/20) is the higher of 2% or more than £5. What this means for South Hams is that the Council would have the flexibility to increase its Band D council tax by £5 per year until 2019/20. (It is an increase of £5.01 that triggers a council tax referendum).
- 2.7 In the Council's response to the draft Finance Settlement, District Councils lobbied for the ability to be able to increase council tax by up to £5. The Council made the point that given the dramatic cuts to funding in Revenue Support Grant and New Homes Bonus, Councils must be given the freedom to set the council tax locally based on local need and local understanding of the services and demands on those services. The Band D council tax level for 2016-17 was set by Council at £150.42.
- 2.8 **Members' Budget Workshop** – On 30th September 2015 a Members' Budget Workshop was held. This was to give all Members the opportunity to influence and shape the budget setting process. Attached in Appendix B is a summary of the outcomes from the workshop.

- 2.9 At this workshop, there was early support for increasing council tax by the maximum allowable percentage. At this event it was recognised that this measure would increase the base budget for ensuing years and protect the delivery of services and the Council's financial resilience.(At the time the workshop was held, the maximum increase allowable was 1.99%). The Final Finance Settlement increased the maximum council tax increase allowable to £5.
- 2.10 A Members' Budget Workshop will be held again in 2016 (around the end of September/early October 2016) in order to carry out a full review of the MTFS.

3 TIMETABLE FOR UPDATING THE MTFS

- 3.1 The MTFS will be drafted over the next few weeks. The timetable for updating and reviewing the MTFS is shown in Appendix C.

4 OTHER ITEMS LINKED TO THE MTFS

Four year Settlement Funding offer

- 4.1 The Government have offered a four year settlement funding offer to Councils. The deadline for accepting the offer is Friday 14th October.
- 4.2 The offer requires Councils to produce an Efficiency Plan if they wish to accept a four-year settlement. It also states that Efficiency plans do not need to be a separate document and can be combined with Medium Term Financial Strategies.
- 4.3 The offer letter from DCLG confirms that the offer is entirely optional and states:-
'It is open to any Council to continue to work on a year-by-year basis, but I cannot guarantee future levels of funding to those who prefer not to have a four year settlement'.

4.4 If the Council accepted the four year offer, this would guarantee the levels of funding over the next four years (to 2019/20) for:-

- Revenue Support Grant (this reduces to Nil in 2018/19)
- Transitional Grant
- Rural Services Delivery Grant allocations
(These funding levels are shown in Appendix A)

4.5 For Business Rates, tariffs and top-ups in 2017-18, 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities, and in the final year may be subject to the implementation of 100% business rates retention.

UK vote to leave the European Union

4.6 The full implications of the decision on 23 June 2016 by the UK to negotiate an exit from the European Union (EU) will become apparent over time. There may be changes in Government policy and any significant changes in the economy may have an impact on local government financing. The MTFS will contain the latest high level forecasts in the public domain for budgeting purposes (those announced in the Local Government Finance Settlement in February 2016) and the Council will continue to monitor any impact on public sector funding and the Council's treasury management activity closely.

5. IMPLICATIONS

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The preparation of the MTFS is evidence that the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements in accordance with statutory requirements, and in particular, that it will set a lawful budget.
Financial	Y	The MTFS will set out the financial implications for the Council of the budget position for the next five years.

Risk	Y	The financial risks facing the Council will be set out within the MTFS.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Summary of budget gap to 2020/21(as at February 16)

Appendix B – Summary of the Budget Workshop held 30th September 2015

Appendix C – Timetable for updating the MTFS and setting the Budget for 2017/18