

NAME OF COMMITTEE	Executive
DATE	11 September 2014
REPORT TITLE	Medium Term Financial Strategy
Report of	Head of Finance & Audit
WARDS AFFECTED	All

Summary of report: This report is intended to update the medium term forecast and to propose some early thoughts about how the funding gap might be bridged, with a view to setting a direction of travel for the next four years.

Financial implications:

The estimated budget gaps are as follows:

2015/16	£412,000
2016/17	£(948,000)
2017/18	£353,000
2018/19	£197,000

RECOMMENDATIONS:

It recommended to Council that:

1. Members provide a set of "minded to" views in order to guide the 2015/16 budget process with particular reference to;
 - the level of council tax increase,
 - the use of New Homes Bonus to support the revenue budget,
 - the amount of Council Tax Support Grant to be passed on to Parish and Town Councils and
 - other budget savings and income generation.
2. The Council's policy should be to set a minimum level of unearmarked general fund revenue reserves of £1.5 million.

Officer contacts:

Lisa Buckle, Head of Finance and Audit
lisa.buckle@swdevon.gov.uk

Michael Tithecott, Chief Accountant
michael.tithecott@swdevon.gov.uk

1. BACKGROUND

- 1.1 In February 2014 Council agreed the budget for the 2014/15 financial year and reviewed the Medium Term Financial Strategy for the three years 2015/16 to 2017/18.
- 1.2 Since that time, the Senior Management Team (SMT) has been focusing on implementing the Transformation Programme (T18) to generate significant savings for the Council.
- 1.3 The following table illustrates the potential funding gap from 2015/16 onwards for the District Council as shown in Appendix A:

	2015/16	2016/17	2017/18	2018/19
	£	£	£	£
Annual gap/(surplus)	412,000	(948,000)	353,000	197,000
Gap as % of net expenditure Budget of £9.027 million	4.56%	(10.5%)	3.91%	2.18%
TOTAL BUDGET GAP OVER THE FOUR YEARS TO 18/19				14,000

- 1.4 Whilst there remains a great deal of uncertainty about various elements of income and expenditure, we have based the forecast that follows on a set of assumptions which represent a cautious estimate in order to focus attention on the revised scale of the funding gap. The figures will be revised as we progress through the financial year.

2. ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSE

- 2.1 There is predicted to be a 27% reduction in government funding over the four years from 2014/15 to 2018/19 (see Appendix A). The Appendix is consistent with figures that have been provided through the Finance Settlement for 2015/16 and the modelling available regarding Localisation of Business Rates from data we have supplied to the Government on Business Rates returns.
- 2.2 Salaries increase by 1% on an annual basis (Appendix B).

- 2.3 Inflation will run at 2% over the period.
- 2.4 The interest return for our investments will be 1 % for 2015/16 rising to 2.75% in 2018/19.
- 2.5 No assumptions have been built into the financial modelling for council tax increases for 2015/16 onwards. Members' views on Council Tax increases are sought as part of this report. Therefore the financial modelling in Appendix A assumes a Band D council tax of £145.42 (the current Band D council tax for 2014/15).
- 2.6 The Council is addressing budget under-performances on car parking income through a realignment exercise over a period of time – to align the income targets with actual income received. Income from car parking has been reduced by £50,000 in 2015/16, based on trends over the last three years.
- 2.7 The Strategic Waste Review actions for the South Hams Collection Service have been agreed. The major procurement for the sale of dry recycling materials is under way currently, with tenders due to be received on 1 September 2014. Subject to market prices for recycling materials, the saving for the waste review in 14/15 will be £110,000 (Budgeted 14/15 saving was £140,000). Interim materials sales solutions have already increased income during this financial year. There is a reduction in the original saving estimated due to the decision made to delay property day changes until the Autumn of 2015 when we will have our new fleet in place and the support officer capacity to deliver this customer change effectively and efficiently.
- 2.8 Members will appreciate that capital spending has an impact on revenue. As part of the Medium Term Financial Strategy it will be necessary to review the level and phasing of schemes within the Capital Programme. At this stage no assumptions have been made. A detailed three year Capital Strategy and Capital Programme is in the process of being prepared for the December Executive meeting which will form part of the Budget Proposals for 2015/16. The Strategic Asset Review will inform the three year Capital Strategy. Again no assumptions have been made at this stage but will be built into the forecast once decisions are reached on the scale of the asset disposal/investment programme.

3 TRANSFORMATION PROGRAMME 2018 (T18)

- .3.1 In response to the unprecedented scale of financial challenges that this Council faces, Members have approved (Council Minute 34/13, October 31st 2013) an innovative Transformation Programme (T18) which requires an investment budget of £2.95 million, to deliver annual recurring revenue savings of £2.5 million.

- 3.2 This builds on the success of our shared services partnership with West Devon Borough Council and will see both Councils pioneering a new operating model for local government. The shared services programme with West Devon has generated shared services savings of £7.7million across both Councils since 2007 (with the South Hams share being £4.06 million).
- 3.3 The T18 Programme is viewed as the primary driver to achieve the savings required over the next few years. The programme is currently being designed to deliver a long term organisational vision which we anticipate will remove the need to deal with the budget gap through an annual service and financial planning process.
- 3.4 The T18 Programme is intended to drive out significant efficiencies so that a position can be reached whereby annual budget reductions are minimised and the Council is placed on as firm a footing as possible, notwithstanding the national uncertainty about economic growth and the future funding model for local government.
- 3.5 The Transformation Programme will not only deliver savings of 23% of our net revenue budget for both Councils, it will also create a new model to allow several Councils to share services whilst retaining their individual identities. This model can be easily used in other parts of the country and is scalable in its application.
- 3.6 The Council has received very good news in that our expression of interest to the Transformation Challenge Award to DCLG has met the assessment criteria and has been accepted.
- 3.7 We now have to develop a full bid by 1st October 2014 which, if successful, could see an award being made as early as November. Our expression of interest asked for £700,000 of Government funding to help fund our transformation programme which will deliver our new operating model. We also asked for a further £400,000 should Torridge District Council join our model. There will be Member meetings through September to enable us to share information about this possibility.

3.8 A summary of the savings and investment required for the Transformation Programme (T18) is shown below:

SHDC	2014/15 million	2015/16 million	2016/17 million	2017/18 million	2018/19 million
Investment costs (Total of £2.95 million) ICT Software costs, Implementation costs, accommodation costs and staff redundancy and pension strain costs	£1.135	£1.510	£0.109	£0.109	£0.087
Cumulative Revenue Savings Staff savings (approx 24% of staffing base) New income from released surplus accommodation and reduced annual running costs	£(0.172)	£(1.526)	£(2.269)	£(2.385)	£(2.469)
TOTAL	£0.963 Net investment cost	£(0.016) Net saving	£(2.160) Net saving	£(2.276) Net saving	£(2.382) Net saving

The table above shows the timing of the expenditure for the investment costs of £2.95 million and shows that by 2018/19 the annual revenue savings are £2.5 million, with net savings of over £2 million materialising by 2016/17. The investment cost in 2014/15 of £0.963 million is being financed by the T18 Investment Earmarked Reserve (see Appendix C schedule of Reserves – Council Minute 34/13).

- 3.9 The costs have been calculated to ensure that each Council pays its own share. The Programme will be self-financing from the end of year 2 (2015/16) onwards. The payback period for the Programme is 2 years. This provides a high degree of confidence that South Hams District Council will remain a viable Council with the ability to continue to deliver quality services in the years to come.
- 3.10 No T18 savings from 2015/16 have yet been assumed to be available to put towards the budget gap identified for 2015/16 as these savings are primarily needed to pay for the investment costs.
- 3.11 The savings from the T18 model will mean that the Council would be able to have less reliance on New Homes Bonus to fund its revenue budget. This would release funding for investment in the Council's priorities (see 3.12) and for capital investment. The Council currently has a lack of available capital resources to meet its predicted future capital programme requirements over the next three years. The Strategic Asset Review has also identified projects which require capital investment but which would provide an income stream for the Council. These projects will form part of the Three Year Capital Strategy (see 2.8).

Our Plan – setting priorities

- 3.12 The Council is preparing a new strategic plan for South Hams which will set out a vision, long term priorities and planning policies for the area to 2031. Members will shortly be starting work on shaping the Delivery Plan for Our Plan and this may impact on the Council's Budget as we move the Council towards being a Commissioning Council.
- 3.13 The first formal consultation on Our Plan was undertaken during May and June this year and we received 76 responses in total from a range of individuals and organisations. Between May and October we have been attending a number of community events and have spoken to a wide range of people to gain their views on how they would like to see the future of the area. We have been holding Single Topic Discussions with Members on key issues and several Town and Parish Workshops. We have published regular e-newsletter on key topics and publicised these to the community and stakeholders. We are using social media through YouTube, Twitter and Facebook to reach out to different groups to promote engagement on Our Plan.

4 OPTIONS TO MEET THE BUDGET GAP FOR 2015/16

- 4.1 The budget gap based on the assumptions above, is predicted to be £412,000 for 2015/16, Appendix A provides the details.
- 4.2 As mentioned in 3.10 above, the budget gap of £412,000 is the position without taking into account any T18 savings in 2015/16 as these savings are primarily needed to pay for the investment costs in 2015/16.

Income from Council Tax

- 4.3 Council agreed to raise council tax by 1.9% from 1 April 2014 to £145.42 for a Band D property for South Hams District Council. This amounted to a £2.71 increase on an average Band D property over a year equivalent to 5p a week. A 1% increase in Council Tax generates an extra £53,000 in extra income per annum.

Council Tax Freeze Grant

- 4.4 On 15 January 2014 the Government issued the guidance for the Council Tax Freeze Grant Scheme for 2014-15. It is assumed that many of these key aspects which applied in 2014-15 will also apply in 2015-16. Namely that:-

(i) It was voluntary and that any authority which freezes or reduces their basic amount of council tax will be eligible to receive the grant (equivalent to a 1% of the basic amount of council tax – this is around £56,000 for South Hams – this is an estimated provisional figure)

(ii) Ministers have agreed that the funding for the 2015-16 freeze grant **should** be built into the spending review baseline. This gives as much certainty as possible at this stage that the extra funding for freezing council tax will remain available.

- 4.5 **Council Tax Referendum limit** - The Localism Act introduced the power for the Secretary of State to set principles each year under which council tax increases are determined as excessive. The Minister announced that the council tax referendum threshold for 2014/15 remained unchanged from 2013/14 at 2% and did not apply to Towns and Parishes. No notification has been received on the limit for 2015/16.
- 4.6 **Income Generation** – Over the past few months the Council has explored ways to generate new income for the Council. The Income Generation Task and Finish Group has met on a number of occasions to look at ways of generating additional income. The Council report of 19 June 2014 gives more details.

4.7 In summary, the options open to Members to close the predicted £412,000 Budget Gap in 2015/16 are:-

- i) To use New Homes Bonus in 2015/16 to close the budget gap, with a view to reversing the amount of New Homes Bonus that is used to support the Revenue Budget in 2016/17 when the savings from T18 materialise in full (There is a balance of approximately £422,203 uncommitted New Homes Bonus in 2015/16 as per 5.4)
- ii) Members of the Senior Management Team will continue to identify options for savings and income generation over the coming months.
- iii) For Members to give an early indication and to reach a “minded to” view on the level of council tax increase and the level of council tax support grant to be allocated to Parish and Town Councils (see 6.5)

5 NEW HOMES BONUS

5.1 This grant was introduced in 2011/12 and provides incentives for local authorities and local communities to be supportive of housing growth. It is not ring fenced and can be spent on anything.

5.2 On 29 November 2012, the Community Life & Housing Scrutiny Panel considered a report on the New Homes Bonus Strategy. It was resolved (CLH. 27/12) that the New Homes Bonus funding for 2013/14 is used to support the following categories:

- To finance housing capital projects
- Community re-investment projects (please see separate agenda item)
- Funding for the revenue base budget
- Community grants and projects
- To provide funding for the overall Capital Programme
- To make a provision for a share of the New Homes Bonus for the Dartmoor National Park when appropriate

5.3 Members have approved the following use of the New Homes Bonus to date:

Year	2011/12 £	2012/13 £	2013/14 £	2014/15 £
Grant received	297,567	826,317	1,026,018	1,365,325
Use of New Homes Bonus (£)				
Housing Capital Projects		300,000	460,000	460,000
Community Reinvestment Projects			153,900	153,900
Revenue Base Budget	100,000	100,000	100,000	564,043
Community Grants (CAB Outreach worker)			10,000	10,000
Funding for the overall capital programme	197,567	419,567		
Dartmoor National Park		6,750		17,277
Transferred to the Capital Programme Reserve			302,118	160,105
TOTAL	297,567	826,317	1,026,018	1,365,325

5.4 An estimate of New Homes Bonus for the next four years is shown below:

NHB Forecast (£)	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
2011/12 actual allocation	297,567	297,567	297,567	-	-
2012/13 actual allocation	528,750	528,750	528,750	528,750	-
2013/14 actual allocation	199,701	199,701	199,701	199,701	199,701
2014/15 actual allocation	339,307	339,307	339,307	339,307	339,307
2015/16 forecast allocation		249,760	249,760	249,760	249,760
2016/17 forecast allocation			249,760	249,760	249,760
2017/18 forecast allocation				249,760	249,760
TOTAL	1,365,325	1,615,085	1,864,845	1,817,038	1,288,288
The table below shows the possible ways in which NHB could be used in future years for modelling purposes only:-					
To fund Housing Capital Projects	460,000	460,000	460,000	460,000	460,000
To fund Community Re-investment	153,900	153,900	153,900	153,900	153,900
CAB Outreach Worker	10,000	10,000	10,000	10,000	10,000
To fund the Revenue Budget	564,043	564,043	Nil?	?	?
Dartmoor National Park	17,277	4,939 (TBA)	TBA	TBA	TBA
Capital Programme Reserve	160,105				
Balance remaining (uncommitted)	Nil	422,203	1,240,945	1,193,138	664,388

As part of the Budget Setting Process for 2015/16, Members will need to consider the level of New Homes Bonus that is used to support the revenue budget.

6 OTHER BUDGET CONSIDERATIONS

- 6.1 **Council Tax Reduction Scheme** – Following Council Tax Benefit being abolished, Council in December 2013 approved the implementation of a cost neutral local Council Tax Reduction Scheme for 2014/15. This scheme is a discount scheme rather than a state welfare benefit and means that working age claimants will pay a minimum of 20% towards their Council Tax bill. There will be an exception hardship fund to help those claimants experiencing severe financial difficulties.
- 6.2 These changes have the effect of reducing the council tax base not only for the District Council, but also for Town and Parish Councils and Devon County Council etc. Reductions in the Council Tax Base adversely affect a local authority's ability to raise income from Council Tax.
- 6.3 The Government is providing financial support for local authorities (Council Tax Support Grant) to assist them in dealing with the effects of the benefit changes on their Council Tax Base.
- 6.4 In the December 2013 Statement, the Minister reminded local authorities that within the funding for Council Tax Support Schemes there is an element to specifically reflect reductions in the parish tax base that has resulted from the introduction of Localised Support for Council Tax. He confirms that the funding is not separately identified, because it is not ring-fenced and there is recognition that as caseloads change and schemes evolve, the amount that different parishes need will change. He also states that there is an expectation by the Government that billing authorities will continue to pass on support to town and parish councils to help mitigate any reduction in their tax base due to the local Council Tax support scheme.
- 6.5 However, it is considered appropriate that the Council Tax Support Grant to Town and Parish Councils should reduce in line with the reduction that the District Council is experiencing with its Settlement Funding Assessment (SFA). The District Council approved a grant distribution of £125,369 for 2014-15. It is estimated that the Council's SFA will decrease by 10% in 2015-16 (see Appendix A). Therefore Members' views are sought on the proposal to consult with Town and Parish Councils on a 10% reduction in the grant for Town and Parish Councils for 2015-16 to £112,827 (a reduction of £12,542). Appendix D illustrates the effect of this.

7. RESERVES

Earmarked Reserves

- 7.1 **Specific Earmarked Reserves** - The level and commitments for each reserve are kept under review each year to make sure the uncommitted balance is adequate for its purpose. The Earmarked Reserves are reviewed as part of the “budget scouring” exercise each year – this exercise is in progress at the moment. A schedule of Earmarked Reserves is attached at **Appendix C**.

General Fund Balance (Unearmarked revenue reserve)

- 7.2 Previous guidance from the Audit Commission suggested that the General Fund Balance should be between 5% and 10% of net operating expenditure. The Council’s net operating expenditure is £9.027 million for 2014/15; so an appropriate balance would be in the region of £451,000 to £903,000.
- 7.3 The General Fund Balance stood at £1.707 million at 31st March 2014. It is predicted to be £1.654 million at 31 March 2015 (Appendix C). Therefore, the Council is still within a prudent level of reserves. It is recommended to Council that the Council’s policy should be to set a minimum level of unearmarked general fund revenue reserves of £1.5 million.
- 7.4 Our financial strategy recognises the need to maintain un-earmarked revenue reserves to provide stability for both medium and longer term planning and to provide a contingency against unforeseen events. In setting the minimum level at £1.5 million the following have been taken into account:
- The size of the authority
 - The volatility of some income and expenditure budgets due to a dependency on the weather, tourism and state of the economy
 - The risks faced by the Council with regard to funding unforeseen events
 - The level of investment income used to support council tax arising from our reserves
 - Uncertainty over future Government funding
- 7.5 The Council can take comfort that our General Fund Balance stands above the minimum balance. It acts as a safeguard against unforeseen financial pressures.

8. CAPITAL PROGRAMME

- 8.1 As part of the Medium Term Financial Strategy (MTFS), it is also necessary to review the level and phasing of schemes within the Capital Programme. It is important that the programme is matched with available resources and the impact on reserves and the revenue budget is fully assessed.

- 8.2 A detailed three year Capital Strategy and Capital Programme is in the process of being prepared for the December Executive meeting which will form part of the Budget Proposals for 2015/16. The Strategic Asset Review will inform the three year Capital Strategy. Again no assumptions have been made at this stage but will be built into the forecast once decisions are reached on the scale of the asset disposal/investment programme.
- 8.3 Consideration needs to be given to the funding options for the 2015/16 Capital Programme. The Capital Programme is set by the Council and may be funded by sale proceeds from the disposal of assets (capital receipts), external grants and contributions, directly from revenue or from borrowing.

9. LEGAL IMPLICATIONS

- 9.1 The Executive is responsible for recommending to Council the budgetary framework. In accordance with the Financial Procedure Rules, Council must decide the general level of Reserves and the use of Earmarked Reserves.
- 9.2 The preparation of this 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.

10. FINANCIAL IMPLICATIONS

- 10.1 The financial implications are as set out within the Financial Strategy.

11. OTHER CONSIDERATIONS

Corporate priorities engaged:	A balanced budget underpins the Council's capacity to deliver its corporate priorities
Statutory powers:	Local Government Act 1972, Section 151
Considerations of equality and human rights:	A 360 degree assessment of the equality implications will be carried out on all budget proposals for future years and any issues raised will be considered.
Biodiversity considerations:	None directly related to this report.
Sustainability considerations:	None directly related to this report.
Crime and disorder implications:	None directly related to this report.
Background papers:	Report to Council on 13 February 2014 on 2014-15 Budget Report to Executive on 23 January 2014 on 2014-15 Budget
Appendices attached:	Appendix A - Modelling of the Financial Strategy Appendix B - Budget Pressures and Savings Appendix C – Schedule of Reserves Appendix D – Council Tax Support Grant to Town and Parish Councils for 2015/16

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Robustness of medium term financial strategy and service blue-prints	<p>Not achieving financial savings as anticipated</p> <p>2015/16 will see a further significant reduction in formula funding</p> <p>External change to the national economic environment which may impact on our funding expectations.</p> <p>Implications of changes to the funding of local government through locally collected business rates and revenue support grant. Effect of the localisation of council tax.</p> <p>Achieving anticipated income targets in the current financial climate.</p>	4	4	16	↔	<p>Corporate engagement in the development of the medium term financial strategy.</p> <p>Service commitment to business planning processes.</p> <p>Robust horizon scanning to monitor changes in Government policy.</p> <p>The Council will continue to carry out modelling exercises to ascertain the effect of the new schemes on the Council's finances. Options for business rates pooling will be assessed.</p> <p>Monitoring of corporate income streams and revenue budgets.</p>	<p>H of Finance & Audit</p> <p>Corporate Director (TW)</p> <p>Corporate Director (AR)</p> <p>H of F&A</p> <p>H of F&A</p>

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
2	Funding of the future Capital Programme	Availability of capital resources and options of using funding streams, such as New Homes Bonus	4	4	16	↔	<p>Review of potential opportunities to support further capital programme.</p> <p>One of the objectives of the Strategic Asset Review is to identify opportunities for the disposal of assets and the generation of capital receipts.</p>	<p>Corporate Directors, H of F&A H of A</p> <p>Corporate Directors, H of F&A H of A</p>
3	Setting a lawful budget	Failure of the Council to set a lawful budget	5	1	5	↔	<p>The Budget is compiled in accordance with best practice guidelines issued by CIPFA and the Government. The final budget report includes an assessment from the Section 151 Officer on the adequacy of the Council's reserves and the robustness of the estimates made for the purpose the budget calculations.</p> <p>The budget process is laid down in the Council's Constitution. Executive and Council meetings are timetabled to meet the Statutory deadlines for setting the Council Tax.</p>	Head of Finance and Audit
4	Income from business rates	Income from Business Rates Is subject to volatility both from business rating appeals and from the economic climate.	5	3	15	↔	<p>The position will be monitored by the Head of Finance and Audit. The quarterly Revenue Budget Monitoring reports will monitor Business Rates income against projections. Any variances will be highlighted to Members at an early stage.</p>	Head of Finance and Audit

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
5	Corporate Priorities	Failure to target budgets to service priorities	5	1	5	↔	The budget is subjected to extensive consultation with all Members, the public and the business community. Adequate levels of appropriately trained staff. Monthly monitoring of performance to management, quarterly to the Executive.	Head of Finance and Audit

Direction of travel symbols ↓ ↑ ↔