

REPORT TITLE: MEDIUM TERM FINANCIAL PLAN

31 AUGUST 2017

REPORT OF PORTFOLIO HOLDER: CLLR GUY ASHTON (PORTFOLIO HOLDER FOR FINANCE)

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WARD(S): ALL

PURPOSE

To provide an update of the current financial position of the Council and financial projections over the medium and long term. The projections included in this paper have been extended to show the long term financial position.

The Council has agreed to follow the principles of Outcome Based Budgeting in budget preparations for the Council Budget 2018/19. This will help to ensure that the budget process is flexible enough to deal with the change and challenges required, ensuring resources are prioritised in the most effective way to successfully achieve the Council Strategy and outcomes.

In order to guide financial planning and understand the potential future impacts of the continuation of reductions to local government funding and the move towards self-sufficiency, the paper includes a range of scenarios. These scenarios will be refined on a rolling basis to ensure that medium term plans remain financially resilient.

RECOMMENDATIONS:

That The Overview & Scrutiny Committee consider the report and the current financial projections and highlight key observations for the Cabinet to consider.

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

- 1.1 This report sets out the current financial position and the latest medium term projections, along with detailed sensitivity analysis. This analysis will form the baseline for the Outcome Based Budgeting process and will therefore help to guide and inform budget planning work and the options for delivering the Council Strategy which will be presented to December Cabinet (November Overview and Scrutiny).

2 FINANCIAL IMPLICATIONS

- 2.1 The Medium Term Financial Strategy along with the Council Strategy are the cornerstones of providing sustainable delivery of services to the residents of the District.
- 2.2 Identifying and analysing the financial pressures and risks, helps to ensure the effective prioritisation of resources in order to deliver the Council Strategy and maintain a balanced budget.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 None identified

4 WORKFORCE IMPLICATIONS

- 4.1 None directly from this paper.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 A key strand of the Council's financial and treasury strategies is to maximise income from its assets and seek to manage risk by achieving a balanced portfolio of assets. Options considered during the budget planning process may therefore involve either the acquisition or disposal of assets.

6 CONSULTATION AND COMMUNICATION

- 6.1 The portfolio holder has discussed this report with relevant staff and advisors.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 Environmental considerations will be considered as part of the business case supporting any budget proposals.

8 EQUALITY IMPACT ASSESSMENT

- 8.1 This document is part of the budget consultation process and equality impact assessments will be considered alongside any relevant budget options.

9 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<i>Significant reductions in government funding over the medium term</i>	<i>Financial projections are shown up until 2026/27 and the scenario planning highlights the potential sensitivities.</i>	<i>Development of locally generated income streams with less reliance on government funding</i>
<i>Council's service priorities are not reflected in the budget</i>	<i>The use of Outcome based budgeting as a method of delivering the budget from 2018/19 onwards.</i>	<i>Ensure the prioritisation of resources to best meet the Outcomes of the authority</i>
<i>Failure to set a balanced budget over the medium term</i>	<i>Appendix A shows the latest financial projections up until 2026/27, and the scenario planning highlights the sensitivities around these projections. Planning over a longer period will help to ensure understanding of the scale of the financial challenges and ensure that early planning enables enough lead in time for the implementation of budget options.</i>	<i>Long term strategic planning Innovative funding streams Transformational efficiency savings</i>
<i>Delays to or failure to deliver major capital schemes leaving future years forecast deficits</i>	<i>Ensure robust business cases are taken forward and sufficient resources are available to deliver the projects. Scenario planning to ensure that a multitude of options are available for consideration.</i>	<i>Consideration of a wide base of potential capital / investment schemes to enable a balanced risk portfolio and options for other schemes to be chosen should any existing schemes not progress</i>

10 SUPPORTING INFORMATION:**Background**

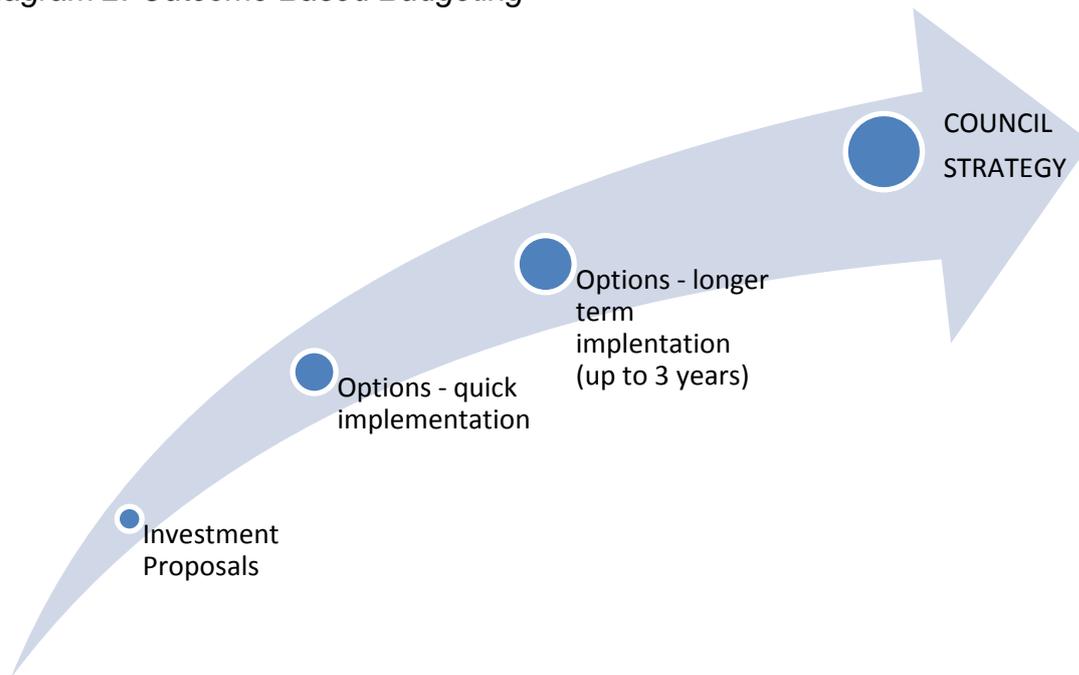
- 10.1 The Council continues to respond to the significant changes in Central Government support whilst being mindful of the impact on local council tax payers and the services being provided to local communities.

- 10.2 The Medium Term Financial Strategy will be influenced by actions within the Council's control and external factors. A sensitivity analysis, showing a range of possible scenarios is included for consideration.
- 10.3 The funding regime for local authorities is radically changing, with Councils needing to consider a fundamental shift in how services are funded, away from central government grant and towards a more self-sufficient and sustainable model which is driven by local strategy.

Policy Driven Approach

- 10.4 Financial Planning is an intrinsic part of the Council's Corporate Planning, in considering how to best use limited financial resources, the Council is guided by its service and policy priorities as well as through the key strands of the Efficiency Plan (taken to Cabinet in September 2016)
- 10.5 In order to pro-actively meet the medium to long term challenges it was agreed to develop a smarter approach to budgeting in preparation for the from 2018/19 budget by adopting the Outcome Based Budgeting (OBB) process.
- 10.6 The key principles and benefits of OBB are as follows:
- By focusing on the Council Strategy and the outcomes the council wishes to deliver, it is possible to prioritise resources more effectively to deliver the long term aims of the authority. This should help to further progress strategic decision making and avoid short term "salami slicing" in order to balance the budget one year at a time.
 - Transparency and engagement are key elements of the new process, helping to drive efficiency, long term strategic planning, the effective prioritisation of resources, and ultimately a shared vision for the future.
 - Long term planning ensures that the optimum methods of service delivery can be taken, rather than solely service reductions. This could include investment to deliver either an income stream or cost savings, a more commercial approach to service delivery, or organisation wide cost saving ideas.

Diagram 2: Outcome Based Budgeting



10.7 The budget timetable and methods of engagement are as follows:

Diagram 3: Budget Timetable

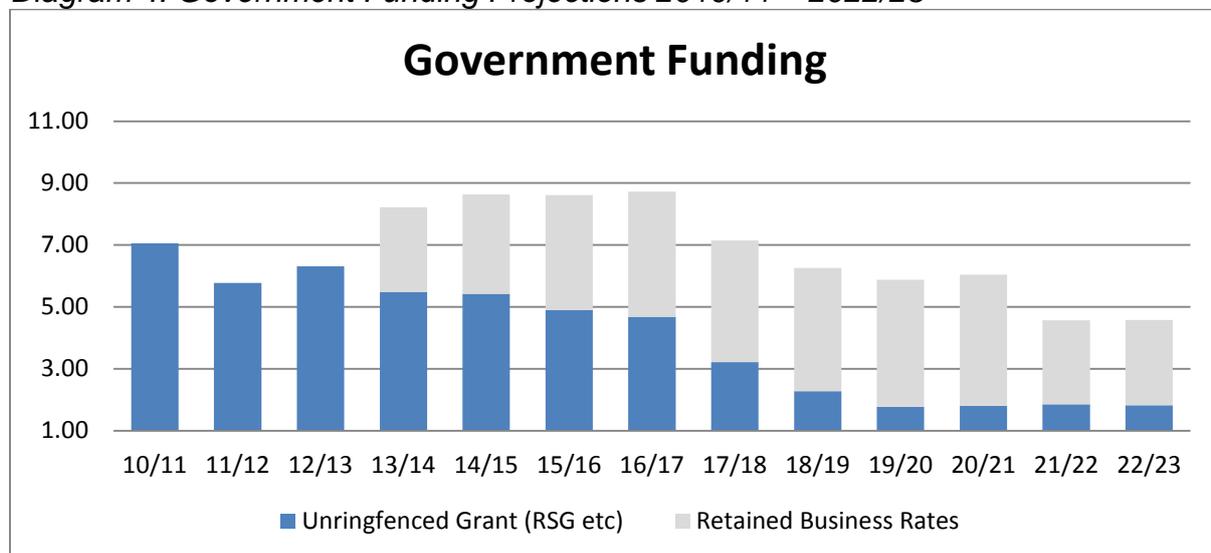


- The Council Strategy identifies five 'outcomes': Housing, Environment, Business, Health and Happiness, and Entrepreneurial approach. A sixth area, Organisational Delivery, has been included for the budget process. An outcome lead officer has been assigned to each of these and staff engagement is taking place over the summer in order identify options and methods of delivering the outcomes.
- A paper outlining the different options for delivering the budget will be presented to December Cabinet (November Overview and Scrutiny). It is anticipated that there will a mix of options, some which could potentially deliver 'quick wins' and therefore helping to deliver in the short term, and others which will be more long term in nature and will take longer to fully develop. This mixture of options will enable the Council to be flexible in the current times of change, and aim to deliver a balanced budget over the medium term.
- Engagement sessions will take place before Christmas with both businesses and Parish Council's. By this time it is also hoped there will be some initial outline confirmation of central government funding.
- The final budget will be presented to Cabinet and Council in February (January Overview and Scrutiny).

Identifying Resources

10.8 The graph below shows the total government funding received from 2010/11 – 2016/17 and forecast receipts from 2017/18 – 2022/23. The impact of the revised new homes bonus scheme, reduction in revenue support grant, and potential business rates growth reset show a potential reduction from just under £9m in 2016/17 to under £5m in 2022/23.

Diagram 4: Government Funding Projections 2010/11 – 2022/23

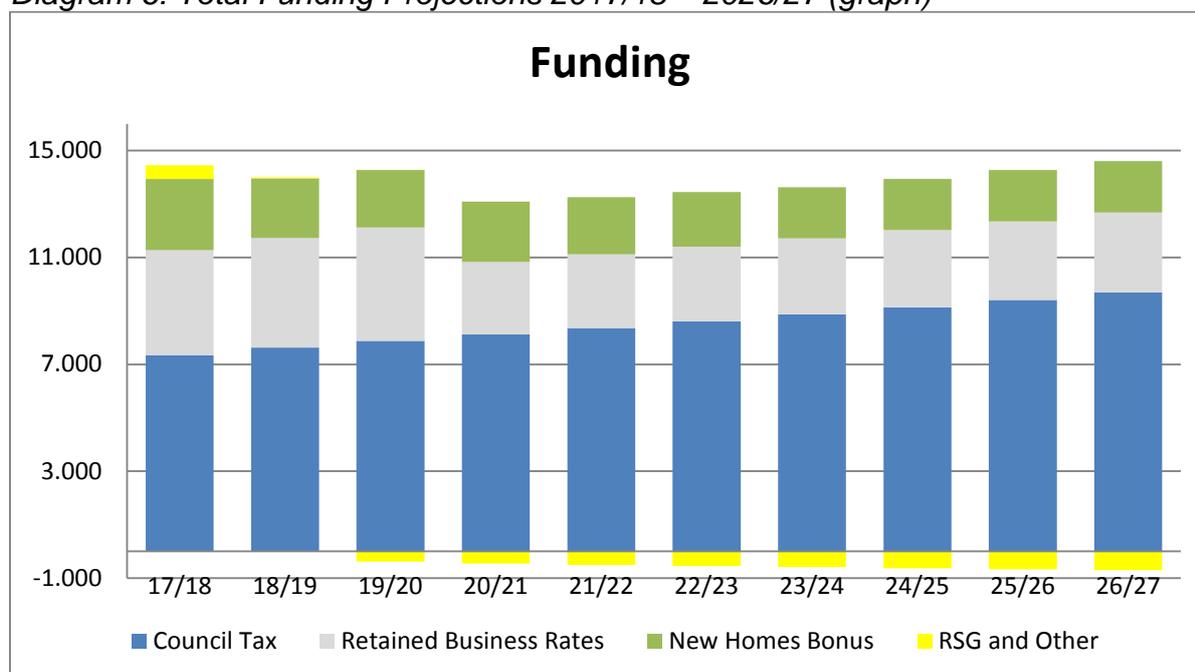


- 10.9 **Four year settlement** – the Council signed up to the four year settlement offered by the Government and covering the period up to the end of 2019/20. This gives limited funding protection covering the Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant.
- 10.10 **New Homes Bonus** – following consultation there were significant changes to the new homes bonus scheme commencing from 2017/18. From 2018/19 the reward period is four years (originally six years) and this is further lowered by the removal of an element of ‘expected’ housing growth. The total reward of £2.66m in 2017/18 (£3.29m in 2016/17) is forecast to reduce to £2.24m in 2018/19.
- 10.11 **Council Tax** - The Council Tax Referendum limits for 2018/19 will be announced alongside the settlement. It is currently anticipated that this will remain at either up to 2% or £5 for lower tier authorities. The central case forecast assumes no increase in tax and a 1.2% (c. 575 Band D properties) growth in the tax base.
- 10.12 **Retained Business Rates** – the headline for local government from the June Queen’s Speech was there was no mention of the Local Government Finance Bill. Whilst the introduction of 100% retention is not reliant on primary legislation, the indications from DCLG are that plans for the introduction of 100% retention are currently on hold. The central case forecast within this paper is in line with the current system, with a full reset of growth in 2020/21 and partial resets of growth following this.
- 10.13 **Fair Funding Review** – unlike the move to 100% rates retention the review of relative needs funding is expected to continue as planned for implementation from 2020/21. Approximately £2.1m of the total retained business rates relates to baseline funding which is drawn from the relative needs formula. There is also a ‘tariff’ forecast cost of £410k from 2019/20 which highlights that Central Government funding allocations are currently greater than the total ‘pot’ of funding available.
- 10.14 **Fees and Charges** are reviewed on an annual basis in order to feed into the budget process, with a final list of fees and charges published in March each year. Starting in 2018/19 the fees and charges strategy and summary financial forecasts will be considered and approved as part of the budget process.

Diagram 5: Total Funding Projections 2017/18 – 2021/22 (table)

Funding - Central Case Forecast (£m)					
	17/18	18/19	19/20	20/21	21/22
Council Tax	7.340	7.624	7.886	8.121	8.365
Retained Business Rates	3.936	4.101	4.237	2.711	2.753
New Homes Bonus	2.661	2.241	2.148	2.256	2.143
RSG and Other	0.513	0.037	-0.373	-0.450	-0.511
Total	14.450	14.002	13.898	12.639	12.750
Change to prior year		-0.448	-0.104	-1.260	0.111
Cum. Change		-0.448	-0.552	-1.811	-1.700

Diagram 6: Total Funding Projections 2017/18 – 2026/27 (graph)



Scenario Planning (Sensitivity Analysis)

- 10.15 The requirement for financial resilience and the Council to be self-sufficient, taking account of the uncertainties of funding streams and other assumptions used to underpin the Medium Financial Strategy means that it is important to view a range of possible outcomes. Below are three scenarios based on differing assumptions of activity over the next ten years.
- 10.16 To meet the challenge that these scenarios present, it is important that the Council continues to make a fundamental shift in its approach to planning its activities and the way it funds them. A continued commitment to innovation and challenging the status quo is necessary to ensure that the Council is fit for

purpose, meets the challenge of reduced central government funding and remains sustainable.

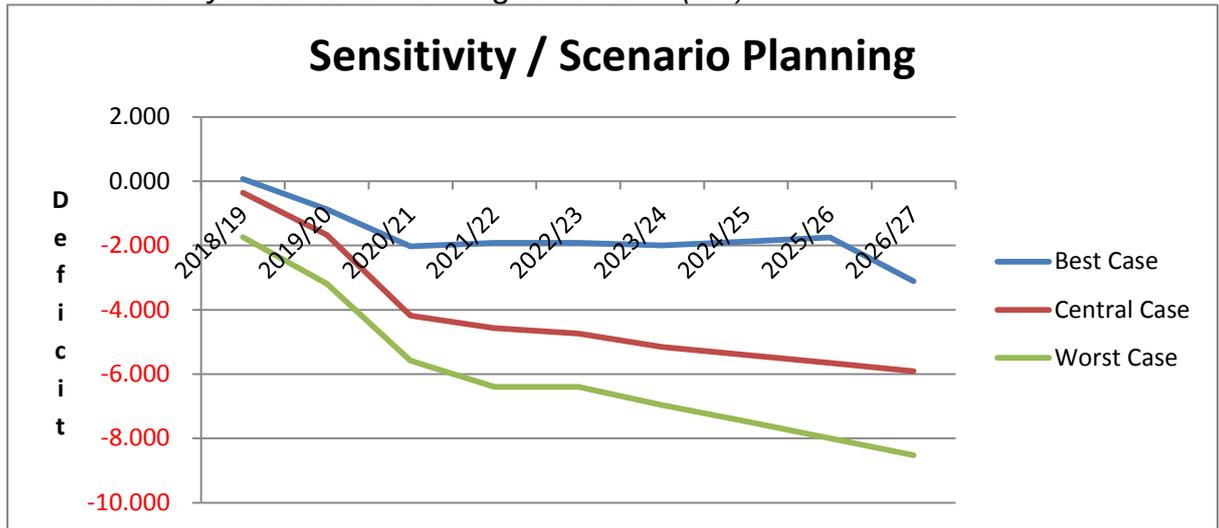
10.17 The projected increases in contractual inflation, fees & charges, and council tax are all based on the latest available CPI forecast.

Central Case Assumptions	2018/19	2019/20	2020/21	2021/22 onwards
Income / Funding				
Council Tax Increase	3.0%	2.5%	2.0%	2.0%
Council Tax Base	1.2%	1.2%	1.2%	1.2%
Fees & Charges	3.0%	2.5%	2.0%	2.0%
Interest Receivable	1%	1%	1%	1%
Interest Payable	Per the Treasury Management Strategy			
Retained Business Rates	Inflationary uplifts and full growth reset in 2020/21			
New & Affordable Homes Bonus	Mix of local forecasts and government settlement			
Expenditure				
Contractual Inflation	3.0%	2.5%	2.0%	2.0%
Employee Pay Inflation	1.5%	2.0%	2.0%	2.0%
Employer's Pension Contributions	1.0%	1.0%	1.0%	1.0%

10.18 The financial projections in Appendix A do not include the potential net financial benefits of the Station Approach and Central Winchester major projects.

10.19 The diagram below shows the potential sensitivity around the central case forecast by including the potential 'best case' and 'worst case' scenarios. It is clear from the diagram below that the gap between 'best' and 'central' is widest from 2020/21 onwards due to the central case forecast of a reset of business rates growth from 2020/21.

Diagram 7: Sensitivity / Scenario Planning to 2026/27 (£m)



Capital

- 10.20 The Capital Programme has been reforecast and for 2017/18 has been reduced by £3.5m (£26.1m to £22.6m); this includes £2.7m re-profiled to future years as well as £0.9m in savings.
- 10.21 The Council continues to plan to use prudential borrowing to support its capital spending and this has direct consequences on the revenue resources available, and feeds through to the revenue projections. The forecast Capital Financing Requirement (CFR) for the General Fund is expected to increase from £8.2m to £129.6m by March 2024 and then fall to £111.7m by March 2027.
- 10.22 In 2017/18, the calculation of the annual Minimum Revenue Provision (which reduces the CFR) was changed from a straight-line basis to the annuity method. The effect is to reduce costs in the early years but increase them in the latter which better reflects the time value of money.
- 10.23 The capital programme is also grouped by categories:
- Spending and committed – schemes where the expenditure has been approved by the appropriate body and are underway;
 - Approved but not yet committed – schemes where the expenditure has been approved but are not yet underway; and
 - Programmed but subject to appraisal – schemes identified as desirable/necessary not yet approved by the appropriate body, and awaiting a full business case.

- 10.24 The timings of the final category of programmed but subject to appraisal are subject to greater variation due to the uncertainty of approval and timings of delivery. For this reason, the potential net benefits of projects such as Station Approach have not been included in the projections at Appendix A as noted in 10.17 above.

Reserves

- 10.25 The Council has available a number of reserves which can be broadly split into the categories of either risk related reserves or strategic reserves.
- 10.26 In order to determine the correct level of reserves a financial risk assessment is produced alongside the annual budget process by extracting financial risks from the Corporate Risk Register. During the process the likelihood, impact and mitigation is assessed, which helps determine the “risk reserves” both at a general level (the £2million General fund Balance) and at a specific level (£1million Business Rates Retention Reserve).
- 10.27 Strategic reserves are determined through linkages to the Asset Management plans, IT Strategy, Car Parking Strategy, Transformation Plans and Portfolio and Service Plans. These plans determine what the resource requirements are over the medium term.
- 10.28 Use of reserves to manage and cushion a clear and transparent savings plan over the medium term will be considered alongside budget options. Planned reserves are a one-off source of funding and an important indicator of the financial resilience of the authority and will therefore only be used where robust spending and/or savings plans are available.

11 Conclusion

- 11.1 The Council faces significant financial challenges over the medium term and must carefully consider and prioritise the options for future service delivery to ensure there is sufficient lead in time to deliver these plans and avoid the non-strategic “Salami Slicing” approach to budget reductions. Finding the most efficient ways of delivering Outcomes will be an integral part of this process, as will effectively prioritising the reducing overall funding levels. The Council has adopted the ‘Outcome Based Budgeting’ approach from 2018/19 onwards to drive this process.
- 11.2 The makeup of local government funding has been changing over recent years with far less reliance on central government grant (such as revenue support grant) and far more reliance on locally generated income (such as council tax and retained business rates growth). The initial reductions to grants such as the revenue support grant were largely counterbalanced by other grants such as new homes bonus and growth from business rates retention. However, changes to the new homes bonus scheme from 2017/18 and likely reductions to retained business rates from 2020/21, mean sharp

reductions in overall funding over the coming years. Local solutions will need to be found to address these reductions and ensure a continued balanced budget over the medium term.

12 OTHER OPTIONS CONSIDERED AND REJECTED

None, this paper sets out the current financial position.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

General Fund Outturn 2016/17 – CAB2938 – July 2017

Medium Term Financial Strategy, Budget and Council Tax 2017/18 – CAB2896 – February 2017

Capital Strategy and Capital Programme 2017 – CAB2889 – January 2017

Other Background Documents:-

None

APPENDICES:

Appendix A: Medium Term Financial Projections

	Sensitivities	1% (£m)					Forecast				
Council Tax Base		0.073	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Council Tax - Band D £		0.073	3.0%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Contractual Inflation		0.100	3.0%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Pay Inflation		0.137	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
General Fund Revenue - Medium Term Forecast (£m)	Original Estimate										
		Forecast									
		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Funding											
Council Tax (excluding Parish Precepts)		7.340	7.624	7.886	8.121	8.365	8.615	8.874	9.141	9.416	9.700
Retained Business Rates		3.936	4.101	4.237	2.711	2.753	2.796	2.839	2.883	2.938	2.985
New Homes Bonus		2.661	2.241	2.148	2.256	2.143	2.036	1.919	1.919	1.919	1.919
Revenue Support Grant & Other Grants		0.513	0.037	-0.373	-0.450	-0.511	-0.548	-0.585	-0.623	-0.662	-0.701
		14.450	14.002	13.898	12.639	12.750	12.900	13.047	13.320	13.611	13.902
Investment Activity											
Interest (Payable) / Receivable		0.567	0.380	-0.236	-1.183	-1.337	-1.601	-1.732	-1.927	-2.399	-2.368
Minimum Revenue Provision		-0.129	-0.181	-0.288	-0.293	-0.662	-0.875	-0.895	-0.916	-1.326	-1.357
Net Investment Property Income		1.688	1.889	2.077	2.055	2.051	2.055	2.059	2.063	2.067	2.071
Resources available		16.576	16.091	15.451	13.218	12.802	12.478	12.479	12.540	11.954	12.249
Baseline Net Expenditure											
Gross Income		12.773	12.776	12.942	13.020	13.813	14.397	14.525	14.745	15.624	15.621
Gross Expenditure		-27.935	-28.669	-29.390	-29.984	-30.500	-31.035	-31.585	-32.115	-32.656	-33.206
Baseline resource requirements		-15.162	-15.893	-16.448	-16.963	-16.687	-16.639	-17.060	-17.371	-17.032	-17.584
One-off budgets & Reserve Related Movements		-1.414	-0.635	-0.675	-0.440	-0.688	-0.573	-0.573	-0.573	-0.573	-0.573
Total net resource requirements		-16.576	-16.451	-17.123	-17.403	-17.375	-17.212	-17.633	-17.944	-17.605	-18.157
Budget Surplus / (Shortfall)		0.000	-0.360	-1.672	-4.185	-4.574	-4.733	-5.154	-5.404	-5.651	-5.909
<i>% of Gross Expenditure</i>			1.3%	5.7%	14.0%	15.0%	15.3%	16.3%	16.8%	17.3%	17.8%