

## **MEDIUM TERM FINANCIAL PLAN 2015 ONWARDS PRE-NOVEMBER 2015 SPENDING REVIEW BUDGET POSITION**

### **1. Purpose of Report**

- 1.1 To consider the development of the Medium Term Financial Plan 2015 onwards and the factors that will influence its delivery and that of the annual budget strategy 2016/2017.

### **2. Background**

- 2.1 Over the last six years the Council has taken actions to respond to reductions in grants of £3.4 million (28.3%) with an objective of protecting front line services whilst not increasing Council Tax. Council Tax has been kept at the same level for six years in a row, reducing the burden on householders at a time of austerity.
- 2.2 Since 2010 the Council has reduced General Fund budget spending by £2.9 million (12.6%) to bridge the funding shortfall, by applying measures such as:
- maximising the use of office space
  - reducing senior management and staff costs
  - streamlining many back office services
  - securing better value for money in purchasing goods and services and
  - generally improving housekeeping
- 2.3 The Government is currently undertaking a spending review of departmental spending and the outcome of this is expected on 25 November 2015. Pre-spending review indications are that the anticipated funding from Central Government is likely to reduce significantly further over the next 4 years.
- 2.4 Actions need to commence on the development of future years' budgets. To support this work it is necessary that an assessment is made of the likely financial scenario based upon available information. This future outlook is set out to help support the work of Portfolio Holders in developing future plans.

### **3. Draft Resource Plans**

- 3.1 Each Portfolio holder has set out a draft Resource Plan which identifies the aims, performance levels and challenges which are likely to be faced in the future. These are attached as Appendices 1-6.
- 3.2 Cabinet will further review these plans to ensure a fit with the development of a new Corporate Plan which will be set out in draft in November 2015.

#### 4. Funding Forecast

- # 4.1 An assessment based on pre-spending review information has been undertaken to identify the likely funds available to the Council in the medium term. This will be updated post spending review and further updated following the Local Government Finance Settlement, expected in December 2015. Details of this funding forecast are set out at Appendix 7. Early indications are that in the period to 2020 grant related funds are expected to reduce by £1.6 million (16.9%).
- 4.2 For information, Council Tax increases over this same period within the Government's assumed limit of 2%, would only bridge the reduction in grant funding by £900,000. This would still leave an overall reduction of possible funds of £700,000.

#### 5. Additional Budget Requirements over the Medium Term

- # 5.1 Increases in costs and known new commitments (Appendix 8) are expected over the next 4 years, based on current activity, to increase the budget requirement by £2.9 million. The background to this anticipated requirement is set out as follows:

**Pay and Price increases:** The Consumer Prices Index (CPI) rose by 0.1% in the year to July 2015, up from 0% in June. This was slightly above market expectations, which had predicted inflation remaining at 0%. As set out in the Governor of the Bank of England's letter to the Chancellor, around three quarters of the weakness in headline inflation relative to the 2% target reflects unusually low contributions from energy, food and other imported goods' prices. The remaining part of the undershoot is judged to reflect relatively weak domestic cost growth, given a continuing, but declining, drag from spare capacity in the labour market. The Medium Term Financial Plan assumptions include:

- Annual Pay Award of 1% per annum for all staff
- Contractual Increments
- Pension Increase Cost in line with advice received from Hampshire County Council
- Inclusion of National Insurance rate changes from April 2016
- Implementation of the National Living Wage
- Fuel and Energy Costs increase to be 2% per annum
- All other costs will be required to be absorbed within existing overall Portfolio budgets, excepting where they are agreed policy or strategy developments

**UK Monetary Policy:** At its meeting ending on 5 August 2015, the Monetary Policy Committee (MPC) voted by a majority of 8-1 to maintain the Bank rate at 0.5%. This is the first meeting in a number of months that the vote to hold rates at 0.5% has not been unanimous, perhaps indicating that the first rise in interest rates is approaching. The MPC has previously emphasised that when the Bank Rate does begin to rise, it is expected to do so only gradually and to remain below average historical levels for some time to come. The Council's treasury management advisors now estimate that the first rise in interest rates will be in the second quarter of 2016, which is still later than many economic commentators. Their expectation is that the appropriate level of Bank Rate for the post-crisis UK economy will be lower than the previous norm, between 2.0% and 3.0%.

- 5.2 Actions to deliver savings of £1.0 million (Appendix 8) have already been identified to reduce the overall budget requirement. This includes:
- Town and parish grant payments are in accordance with the agreed strategy set out in February 2014.

- Fixed asset and equipment funding is in line with the strategy agreed in February 2015.

## 6. Medium Term Financial Overview

- 6.1 Prior to the Government's Spending Review in November and the detail that will follow in the Local Government Finance Settlement in December there remains great uncertainty over the actual scale of funding available. The financial outlook is clear that the Council needs to plan for service delivery with a smaller budget.
- 6.2 Early indications are that in the Medium Term to 2020 the Council will need to plan for a further £3.5 million shortfall in budget requirement (19.2% of the 2015/16 budget requirement).
- 6.3 This is a significant challenge and will require the Council to review areas of spend and service activity with a focus on identifying different ways of delivering services more efficiently and at a lower cost.

## 7. Options for delivering financial savings

- 7.1 As part of the development of both the 2016/17 budget and the medium term financial plan to 2020 the Cabinet will need to review and set out details including options for meeting the shortfall in funding over the next 4 years. These options will likely need to include:
- further reductions in senior management and staff costs
  - identifying different ways of delivering services and managing spend
  - more collaborative working with other public sector organisations in order to reduce costs
  - improving the business management of our back office functions and activities which are not core services
  - generating further value for money in the way we purchase goods and services
  - reviewing the approach to Council Tax and the use of reserves

## 8. Reporting Timeline

- 8.1 It is important that the Medium Term Financial Plan supports the ambition of the Council and remains driven by the objectives set out in the new Corporate Plan and the organisation supports both needs. A timeline is set out for Cabinet which supports both document developments.

	<b>Cabinet Meeting</b>	<b>Report</b>
1	October 2015	Medium Term Financial Plan to 2020 – scene setting and timeline
2	November 2015	1 <sup>st</sup> Draft Corporate Plan
3	December 2015	Government Spending Review Update/ Organisation Review
4	January 2016	Provisional Local Government Finance Settlement
5	February 2016	Budget 2016/17 final report Cabinet set out ideas and options to support MTFP
6	March 2016	Corporate Plan 2016 to 2020 sign off
7	2016 and beyond	Regular monitoring of plan progress

## **9. Portfolio Holder Comments**

The outlook set out in this report is not unexpected. It is however challenging. We start from a good financial position and, together with my Cabinet colleagues, we will work with all Members and our community in an open way to manage the difficult choices that are clearly going to be ahead. This report is the first of many that will look to ensure our community continues to be provided with the services and standards they expect and our taxpayers are treated fairly.

## **10. Recommendations**

Cabinet are asked to agree:

- a) The reporting timeline set out in para.8.
- b) To develop plans for options to support the Medium Term Financial Plan as set out in the timeline.

### **For further information contact:**

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### **Background Papers:**

None