

MEDIUM TERM FINANCIAL PLAN 2017 ONWARDS

1. PURPOSE OF REPORT

- 1.1 To consider the development of the Medium Term Financial Plan (MTFP) for 2017 onwards and to consider the factors that will influence its delivery and that of the annual budget strategy 2017/18.

2. BACKGROUND

- 2.1 The MTFP update brought to the October meeting of the Cabinet provided a forecast on the financial position of the Council to the year 2019/20. This updated paper now provides a more up-to-date view on that forecast.
- 2.2 The challenge for the Council's Medium Term Financial Plan is to deliver an appropriate balance of service and budget which is sustainable in the medium term.

3. AUTUMN STATEMENT / LOCAL GOVERNMENT FINANCE SETTLEMENT

- 3.1 On 23 November, the Chancellor of the Exchequer presented his autumn statement. The Office for Budget Responsibility is now forecasting that borrowing will still be £20.7bn by the end of the parliament (2020/21). Under the previous chancellor, this would have led to further fiscal tightening, however the new chancellor has responded by keeping spending plans almost entirely unchanged, and will use additional borrowing to fund infrastructure investment.
- 3.2 For local government, the autumn statement was broadly good news because it means that it can continue to operate within the four-year guarantee that was announced last settlement (that NFDC have signed up for, along with 98% of other LA's).
- 3.3 The Local Government Finance Settlement for 2017/18 was announced on the 15th December 2016. The settlement honours the 4 year guarantee in terms of formula funding but a significant adjustment has been made to the New Homes Bonus funding, this is explained further below.
- 3.4 The October MTFP allowed for £2.216m of New Homes Bonus funding in 2017/18, reducing to £1.336m in 18/19; so a significant reduction was expected. The updated settlement diverts £240m of 2017/18 New Homes Bonus funding into Adult Social Care, and so reduces the Council's funding in 2017/18 by £726k to £1.490m, i.e. the reduction is taking place a year earlier than originally anticipated, and is more significant overall by £250k, as demonstrated by the following table;

	October MTFP	December Settlement	Change
	£'000	£'000	£'000
2016/17	2,204	2,204	0
2017/18	2,216	1,490	-726
2018/19	1,393	1,132	-261
2019/20	1,336	1,086	-250
4 year change	-868	-1,118	-250

3.5 Another unexpected feature of the settlement relating to New Homes Bonus is that a “Deadweight” factor will be introduced so that no New Homes Bonus payments will be made to a local authority whose housing growth is less than 0.4%. The NFDC tax base grew from 2016/17 to 2017/18 by 522 band D properties; equivalent to 0.75%. The minimum number of new homes for NFDC to meet the 0.4% criteria is 281.

4. THE HAMPSHIRE PENSION FUND

4.1 An actuarial review of the pension fund takes place every three years and provides an updated forecast on the position of the fund going forward. A meeting attended by the Finance & Efficiency Portfolio Holder and Service Manager for Finance took place in October 2016 at Hampshire County Council offices, with presentations being made by the County’s treasury team and the fund actuary, covering the performance of the fund to 31/03/16 and giving a forecast to 2019.

4.2 The original 19.1% employers contribution was split into 2 distinct parts in 2011;
 1) A fixed element based on 6% of the 2010/11 pay bill to bridge the historic deficit on the fund; this has been increasing by 8.8% PA.
 2) 13.1% as the employer contribution rate for current employees who opt in to the scheme; this has been fixed at 13.1% since 2011.

4.3 As a result of the actuarial review;
 1) The fixed element is to continue to increase by 8.8% annually for 2017/18 – 2019/20. In 2020/21 the increase will reduce to 3.9%.
 2) The current employer rate is now set to increase by 1% PA over each of the next 4 years.

4.4 The summary of where this leaves the Council’s annual pension budget requirement (General Fund and HRA) over the period to 2020/21 is shown below:

	17/18	18/19	19/20	20/21
Additional Annual Budget Requirement - £'000	317	328	340	265
Cumulative Additional Budget Requirement - £'000		645	985	1,250

4.5 The approximate split of the additional £1.250m is 87% General Fund and 13% HRA, so £1.040m and £210k respectively. The fixed element is a continuation of an annual increase, and so was already factored into the October MTFP. The current employee

rate increase is new information, and so is now built into the latest budget assumptions.

5. FUNDING ASSUMPTIONS OVER THE MEDIUM TERM

- 5.1 The October Cabinet report assumed a reduction in grant funding over the next 3 year period amounting to £3.051m (37% reduction from 2016/17). The updated position is a forecast funding reduction of £3.274m, representing a 39% reduction from 2016/17;

Business Rates

- 5.2 A new rating list has been received, applicable from April, which means every property will receive a new rateable value. In addition, the rating multipliers will be reset, as opposed to the usual inflationary adjustment. The October report assumed an increase in base line income of £72,000 and a surplus adjustment of £600k PA for 2017/18 – 2019/20. An adjustment will be made in February once the full details of the 2017/18 base and scheme relief details are known, including an assumption on the likely current collection fund deficit.

Formula Funding (Revenue Support Grant / Tariff Adjustment / New Homes Bonus)

- 5.3 As outlined in section 3, the December 2016 Local Government Finance Settlement has resulted in a change in New Homes Bonus funding to the Council of £726k in 2017/18, and £250k overall by the end of 2019/20. The other funding streams are still broadly as expected, in line with the 4 year funding guarantee. The table below demonstrates the amounts received, in comparison to our neighbouring authorities;

	TOTAL			PER HEAD		
	2016/17 £'000's	2017/18 £'000's	Change £'000's	2016/17 £'000's	2017/18 £'000's	Change
New Forest	2,205	1,490	-715	12.27	8.29	-32.44%
Basingstoke & Deane	5,290	2,857	-2,433	30.66	16.56	-45.99%
Test Valley	4,798	4,921	123	40.75	41.80	2.58%
Winchester	3,288	2,666	-622	27.87	22.60	-18.91%
Hart	2,079	2,277	198	22.29	24.41	9.51%
Rushmoor	1,999	1,456	-543	21.13	15.38	-27.21%
All Districts	485,376	413,364	-72,012	22.44	19.11	-14.84%

Council Tax

- 5.4 In December 2016, the Council agreed the Tax Base for 2017/18. The October assumption was a tax base growth at 0.3% equating to an additional £33k of Council Tax (CT). The tax base has actually grown by 0.75%, resulting in additional CT of £83k for 2017/18.

The estimated surplus on the CT collection fund for 2017/18 is £215k, an increase of £73k on 2016/17.

The October assumption of a £5 increase to band D CT remains unchanged in this report.

5.5 The latest forecast funding position is detailed within appendix 1.

6. BUDGET ASSUMPTIONS OVER THE MEDIUM TERM

6.1 The October report allowed for additional costs due to Pay & Price increases over the period to a value of £2.438m. As mitigation against this increase and the shortfall in grant funding, savings totalling £3.635m were identified.

6.2 The October report also identified New Budget Requirements for 2017/18, including a reduction in licencing income due to the nature of the income collection (5 yearly licence), and an initial forecast reduction in interest earnings, as a direct result of the reduction in base rate decreasing to 0.25% in August 2016.

6.3 In order to bridge the new budget gap as created by the December settlement and accommodate new requirements that have come to light since October, the following changes have occurred;

New Forecast Savings:

- A reduction to the Asset Maintenance & Replacement programme budget (£2.5m in 2016/17), to £2.403m for 2017/18
- Additional Income generation (£185k) and Employee savings (£40k) identified at the Health & Leisure Centres
- Additional upfront savings as a result of the Budget Stabilisation strategy - £228k
- Further savings as a result of the Senior Management Review - £70k
- The Tourism Review, resulting in a £40k saving, with further savings in years 2 and 3
- Net income generation due to Business Development projects, yielding £27k in 17/18, increasing annually thereafter

New Additional Budget Requirements:

- Pay & Reward Review - £123k, with further additional costs in year 2
- Recurring costs related to previously approved ICT projects - £85k
- Anticipated additional business rate budget requirement due to increases in the rateable values of the Offices and Depots, partially offset by reduced charges at the Health & Leisure Centres - net £23k

6.4 As shown by appendix 2, the summary position, taking into account all latest funding and budget assumptions as highlighted in this report, result in a balanced budget for 2017/18, a deficit for 2018/19 of £620k, increasing by £189k to a cumulative £809k deficit in 2019/20.

7. OVERVIEW OF SAVINGS ACHIEVED TO DATE AND OPTIONS FOR DELIVERING FUTURE SAVINGS

7.1 In delivering a balanced budget for 2017/18, the Council has had to take actions to plan financial savings of £3.9m and reduce its budget requirement by £2.2m (10.5%) in comparison to 2015/16, whilst also absorbing cost increases of £1.7m. Given that the largest element of the Council's budget is staffing, this has required a reduction in

employee numbers of around 50 full time equivalents (c6% of total). This has required managing in order to avoid any significant disruptions to front line services. Senior Management and a more general reduction in managers, together with reviews of services, budgets and priorities has been the basis of achieving this reduction. The Council's policy towards redundancy and efficiency has successfully been used to manage this often difficult situation.

7.2 The savings generated by the reduction in staffing amount to £558k in 2016/17 with a further £1.065m in 2017/18, a total cumulative contribution to date of £2.181m and an ongoing saving of £1.623m. The delivery of this saving, in order to maintain essential front line services, does incur an initial cost in the form of redundancy and related costs. Over the 2 year transition period, these will total around £1.5m. This initial cost has been funded from in year savings or reserves. The decisions taken by the Council's Executive Management, working within the Council's approved policies are based on individual business cases which require payback within a maximum of 3 years. As can be seen from the figures the overall payback being achieved is nearer to 1 year. The financial details of the decisions taken are included in the Council's Annual Financial Report.

7.3 There are currently a number of service reviews underway, outside of the scope of the Budget Stabilisation Strategy, with the intention that the outcomes will close the remaining budget deficit to the period 2019/20. The reviews currently underway include:

- Building Control
- Waste & Recycling
- Tourism Service
- Health & Leisure Centres
- Enforcement Activity
- Building Works
- Transportation
- Accommodation

7.4 The progress on each review is being reported back to the relevant scrutiny panel, and financial implications will be picked up via MTFP's and Financial Monitoring Reports at the appropriate time.

8. ASSET MAINTENANCE AND REPLACEMENT / CAPITAL PROGRAMME

8.1 The Corporate Overview and Scrutiny Panel were presented with a report on 16 December 2016, confirming the proposed Asset Maintenance & Replacement (AMR) programme and Capital programme for 2017/18 including the outline budget to 2019/20. The summary revenue programme, including one change as agreed by the panel at its meeting is shown as appendix 3, and capital at appendix 4.

8.2 The 2017/18 AMR programme totals £3.198m, with £2.403m being funded within the General Fund revenue budget in line with the £2.4m resources identified, £295k relating to a Leisure Business Development project being funded via use of reserves, and a 3 year 'ICT Protect and Maintain Front Line Services' sum, predominantly funded by underspends that have occurred in 2016/17.

8.3 The General Fund capital programme totals £5.976m, with the majority funded via

external funds/grants and other contributions.

- 8.4 The panel supported the development of the programme, and were supportive of the recommendation to Cabinet that the programme as outlined above and included as appendices 3 and 4 form part of the 2017/18 budget.
- 8.5 In order to meet the fiscal deadlines imposed on these projects, cabinet are recommended to also give their support to the programmes now, so that officers can commence the up-front work involved in writing up the detailed specifications and preparing tender documents, where applicable, ahead of 1 April 2017.

9. GENERAL FUND RESERVES

- 9.1 The table below summarises the General Fund reserves, available to support the Council's revenue and capital budgets over the medium term period as at 31/03/2016 and shows the planned use in 2016/17 and 2017/18;

	Balances 31/03/2016	Planned Use of Reserves 2016/17	Planned Use of Reserves 2017/18
	£'000's	£'000's	£'000's
General Fund Reserve	3,000		
Capital Programme Reserve	9,739		
Capital Receipts Reserve	1,567		
	14,306	-877	-974

- 9.2 The use of reserves includes the support of the Capital and Asset Maintenance and Replacement programmes (2017/18 subject to approval at section 13), and for 2016/17 includes the variations reported throughout the year via financial monitoring, and an estimate of transition costs to come, in line with paragraph 7.2.

10. HOUSING REVENUE ACCOUNT

- 10.1 The annual review of the Housing Revenue Account business plan will be considered by Cabinet in February, following consultation with tenants.

11. CRIME AND DISORDER / EQUALITY AND DIVERSITY / ENVIRONMENTAL IMPLICATIONS

- 11.1 There are no direct implications as a result of this report.

12. PORTFOLIO HOLDER COMMENTS

- 12.1 The reduction in New Homes Bonus has made the delivery of next year's budget even more challenging. Officers have assessed the implications and brought forward a revised budget that is balanced and protects front line services for our residents.

13. RECOMMENDED:

- 13.1 That the Cabinet approve the emerging draft Medium Term Financial Plan 2017-2019 as set out within this report and that this forms the basis of the Council's 2017/18 General fund Budget that will be reported in February 2017.
- 13.2 That the Cabinet give their approval for initial preparatory works to commence with regards to the 2017/18 Asset Maintenance and Replacement and Capital programmes.

For Further Information Please Contact:

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Background Papers:

MTFP – October 2016