EAST HERTS COUNCIL

EXECUTIVE - 3 SEPTEMBER 2013

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE

FINANCIAL STRATEGY AND MEDIUM TERM FINANCIAL PLAN TO 2017/18

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

To consider revisions to the Financial Strategy including policy on reserves and the proposed planning assumptions to be used to update the Medium Term Financial Plan and to make recommendations to Council.

RECOMMENDATIONS TO COUNCIL: that:	
(A)	**the proposed Financial Strategy be adopted;**
(B)	**the planning assumptions set out in this report be adopted by the Council as the basis for framing the 2014/15 budget and Medium Term Financial Plan to 2017/18.**
RECOMMENDATIONS TO EXECUTIVE: that:	
(A)	**Executive consider any revisions to the Medium Term Financial Plan from 2014/15 to 2017/18 arising from Corporate Business Scrutiny Committee.**

1.0 Background

1.1 This report sets the context for the future financial position at East Herts Council. The Financial Strategy is a statement on the Council's approach to management of its financial resources to meet its priority delivery areas. The strategy also considers the appropriate level of reserves that the Council holds to mitigate current and longer term risks.

1.2 Medium term financial planning must make assumptions about the future course of demand and cost pressures on spending and on the factors which affect future income. In June 2013, announcements were made from the Comprehensive Spending Review that impact on the levels of Government funding that change some of the previous assumptions that were in the medium term financial plan from 2015/16 onwards. This plan addresses the outcomes of those announcements.

1.3 In 2013/14, the way in which Local Government is funded has fundamentally changed. This was reflected in the Medium Term financial plan considered in February 2013 and continues to be reflected here.

2.0 Report

2.1 This report considers and outlines the underlying assumptions within the Medium Term Financial plan (MTFP) and addresses the following key areas:

1. Identification of the impact of funding changes and identifies the risks with some assessment of sensitivity analysis

2. Review of the financial strategy including the current level of reserves

3. Considers underlying assumptions around inflation, savings and growth

4. Other factors that need to be considered

Funding Changes

2.2 In 2013/14 the way that Local Government is funded has fundamentally changed, with the introduction of the “Retention of Business Rates” scheme whereby the Business rates that we collect in as a Council are now shared between us and Central Government. If the Council is able to grow business rate yield above the rate that Government assume we will collect, then we will be able to retain 50% of that growth. If we do not collect as much as they anticipate, then this impacts upon our funding until a safety net kicks in at 7.5%.

2.3 The actual rate that is charged is set by Central Government and the Valuation Office determines how much each business must pay. We do not have influence over these amounts but some businesses may be eligible for discounts and exemptions that reduce their burden. Any discounts awarded, impact upon our funding levels as do any revaluations that businesses are awarded on appeal. The rate of tax is indexed to each Septembers RPI.

2.4 The scheme has been running since 1 April 2013 and at this stage we are assuming that the predictions made by Central Government are accurate and have reflected this in the Medium Term Financial Plan. The monitoring of levels of business rate collection and the forecast of future levels is in early stages this year, but forms part of the monthly Healthcheck budget monitoring process. Significant deviations will be reported.

2.5 From 1 April 2013, Council Tax Benefit was replaced with a Council Tax support scheme that was consulted on during 2012/13. The shared Revenues and Benefits service has been administering this scheme since that time. The scheme was devised so that for non-pensioners (who were protected from the changes in the scheme), all recipients of Council Tax support had to pay at least 8.5% of their liability.

2.6 Any increase in the cost of discounts above our original estimates would impact upon our funding. A 1% increase in the cost would cost us in the region of £7k. At this stage of the financial year, we are not anticipating additional burdens and have not reflected this in the MTFP but we continue to consider this risk through the monthly Health Check process.

2.7 In June 2013, there were announcements around the funding for Local Government in the Comprehensive Spending review. The key points from those announcements are as follows:

- 10% funding reduction in 15/16 with notes that similar reductions expected in future years. This is on our total funding and not just the grant element that we receive from Central Government

- Up to 40% top-slice from our New Homes Bonus Grant although it is unclear on how this will be calculated or how this will be administered as this is subject to consultation.

- An overall Welfare spending cap for all of Government. At this stage it is unclear what impact this could have on East

Herts directly.

2.8 The impact of the Comprehensive Spending Review has been included in the MTFP and so our overall funding levels have been reduced in each year from 2015/16 onwards as part of our planning assumptions.

2.9 The funding levels for 2014/15 were announced in December 2012 as part of the 2013/14 settlement. The funding that we are due to receive is an indicative amount and could be subject to change later this year.

2.10 The proposed MTFP includes a specific contingency item of £200k in 2014/15 to meet any changes in funding should these be forthcoming.

Review of the financial strategy and current level of reserves

2.11 **Essential Reference Paper C** is the current Financial Strategy which has been refreshed to reflect the changes in Central Government funding.

2.12 The financial strategy and the MTFP have a 5 year focus and for the purposes of the Strategy this remains sound. However, modelling on a longer term basis, considering potential scenarios around further changes in the scope and amount of Central Government funding are being developed to assist with longer term planning. The types of scenario include:

- Changes in population numbers
- Potential changes in Household numbers
- Potential changes in Business growth
- Sustainability of other Government grants such as New Homes Bonus
- Longer term investment decisions

2.13 A review of the level of reserves has been carried out as at 31st March 2013 based on the draft final accounts (Essential Reference Paper D refers). This indicates that reserves are above the ceiling set out in the strategy by £805k. Consideration does need to be given to the potential release of reserves to reduce the overall general reserve which will be reviewed as part of the integrated resource and service planning currently underway.

2.14 At 31 March 2013 earmarked reserves totalled £6.052m. Additions to Earmarked reserves in 2012/13 totalled £2.692m. A number of these will be released in year for specific purposes.

2.15 There was an underspend in the financial year 2012/13 which meant that resources could be set aside for earmarked purposes. To ensure that any ongoing financial implications are identified early, a specific "Budget Challenge" session is being run examining financial trends in all budget areas to identify any resource that can be reallocated to priority areas. The results of these challenge sessions will assist with identifying new savings plans necessary to meet the new savings requirements identified in this MTFP when setting the budget for 2014/15 in January 2014.

Underlying Assumptions around Inflation, Savings and Growth

2.16 **Essential Reference C** refers to the underlying assumptions that have been made in terms of inflation and other price increases during the medium term planning and the summary model of the MTFP shows how these have been included in the plan.

2.17 The model assumes that all savings and growth that have previously been identified are all delivered, and this is included within the detail sheets behind the summary model.

2.18 The MTFP also indicates that there are new savings that have to be identified, specifically for 2016/17 and 2017/18. To be able to deliver this level of savings planning needs to be underway to ensure that these can be fully met in those years.

2.19 During this planning round, further review needs to be undertaken to ensure that the assumptions around the Localisation of Council Tax Support and Business Rate growth are valid and especially understanding the impact on the Council Tax Base. Given the fact that both of these schemes are new from 1 April 2013, detailed modelling is already being considered but with only a few months' data available on which to forecast, this is an area that needs to be kept under detailed review.

2.20 Recent decisions on the Shared Service for ICT, Print and Design and Business Improvement which indicated significant savings from 2014/15 have also been included in this refreshed model.

Other factors that need to be considered

2.21 There will be a triennial review of Pensions that will report in November 2013. At this stage no assumptions have been made about potential increase in contributions above and beyond those already included in the model after the last review. However, there is a risk that further contributions will need to be made. Once the review has been undertaken, the Council will need to consider the best way of funding any additional contributions, either through additional revenue funding, or where appropriate, through a one-off payment to protect on-going revenue commitments. Decisions will have to be made by the Council once detailed information is available to assess the best way of dealing with this issue.

2.22 The Council had no unused capital receipts at 31 March 2013. Significant Capital development would be a cost to investment income and the Council needs to consider any additional Capital proposals and the total cost of any decisions. Invest to save proposals and externally funded projects need to take into account total costs to the Council as and when decisions are made on whether to undertake these projects.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers
None

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