EAST HERTS COUNCIL

CORPORATE BUSINESS SCRUTINY COMMITTEE – 26 AUGUST 2014

EXECUTIVE – 2 SEPTEMBER 2014

COUNCIL – 1 OCTOBER 2014

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE

FINANCIAL STRATEGY AND MEDIUM TERM FINANCIAL PLAN FROM 2015/16 TO 2018/19

WARD(S) AFFECTED: ALL

Purpose/Summary of Report:

- To consider revisions to the Financial Strategy for the years 2015/16 to 2018/19. This includes the policy on reserves and the proposed planning assumptions to be used to update the Medium Term Financial Plan in preparation for annual budget setting.

RECOMMENDATIONS FOR CORPORATE BUSINESS SCRUTINY: that	
(A)	**The proposed Financial Strategy be recommended to the Executive for approval; and**
(B)	**The Executive be advised of any revisions that should be considered in respect of the planning assumptions set out in the report.**

RECOMMENDATIONS TO EXECUTIVE: that:	
(A)	**Executive consider any revisions to the Medium Term Financial Plan from 2015/16 to 2018/19 arising from Corporate Business Scrutiny Committee.**

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 2015/16 budget and Medium Term Financial Plan to 2018/19.

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, wherever that income is derived.

1.3 In 2013/14, the way in which Local Government is funded fundamentally changed. This was reflected in the Medium Term financial plan considered during 2013/14 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 considers sensitivity analysis around income levels and potential costs.

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

Government Grant and External Support

2.2 In the 2014/15 Local Government finance settlement, there was a reduction for the Council of 21% in its Revenue Support Grant. At that time a provisional 2015/16 figure was given of £1.95m which is a further reduction of 30% from 2014/15. The Council wishes to become more self-reliant rather than having to rely on Central Government support by considering how to grow business rates and increase other income streams to be able to protect the services that residents and local businesses require.

Business Rates

2.3 In 2013/14 the way that Local Government is funded 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 Local Authorities (District and County Council) and Central Government. The system considers whether an authority is a "Top-Up" or "Tariff" authority (having to either take an extra share back or pay over more, like East Herts) and there are also provisions for a safety net, should the amount of business rates the Council is able to collect reduce.

2.4 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.

2.5 The scheme has been running since 1 April 2013. The Council fell into the safety net position during 2013/14, mainly due to the way in which appeals are treated. Appeals can be backdated until the last review, and are determined by the Valuation Office (VOA) and can in some cases take some time to be determined. The Council is compensated for these potential losses.

2.6 During 2013/14 and already in 2014/15, a number of new reliefs have also been introduced by Central Government, including flood relief for affected businesses, extensions on small rate relief and other measures intended to support economic growth. We pass on these reliefs but are then compensated for the impact of these through the application of specific “Section 31” grants, which have an impact on the way that cash flows into the Council through the collection fund.

2.7 Given the number of changes to the way the system is working, sometimes with little notice, modelling the future impact on the Councils finances presents a high level of risk. The model being considered as part of this strategy assumes that the original funding assumptions by Central Government are correct, but further work in this area over the coming few months is important to ensure that the impact of all of these changes are fully understood.

Council Tax

2.8 From 1 April 2013, Council Tax Benefit was replaced with a Council Tax support scheme. 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.

2.9 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.

2.10 In December 2013, the funding for Local Government was announced following the Autumn Statement. 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

- It was announced that there would be a review of New Homes Bonus, although as yet there are no indications of any changes to this funding regime

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

2.11 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 throughout the life of the MTFP.

2.12 Indicative funding levels for 2015/16 were announced in December 2013 as part of the 2014/15 settlement. The funding that we receive could be subject to change later this year, although experience from the last few years has shown that any changes are not usually significant.

Review of the financial strategy and current level of reserves

2.13 **Essential Reference Paper 'D'** is the current Financial Strategy which was refreshed to reflect the changes in Central Government funding last year.

2.14 The financial strategy and the MTFP have a 5 year focus and for the purposes of the Strategy this remains sound. However, we will always look to model the impact of financial decisions over a longer period of time, and in particular look to consider scenarios that are likely to impact upon the District. 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

2.15 A review of the level of reserves has been carried out as at 31st March 2014 based on the draft final accounts (**Essential Reference Paper 'E'** refers). This indicates that reserves are above the ceiling set out in the strategy by£1.374m 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.

2.16 In 2013/14, a payment was made as part of the triennial review of Pensions, to reduce the revenue impact of the Pensions deficit over 4 years. This smooth's the impact on the MTFP going forward. It was intended that this would be made from general reserves, but given the in-year underspend against service budgets, this did not reduce the level of general reserves overall.

2.17 At 31 March 2014 earmarked reserves totalled £8.374m. Additions to Earmarked reserves in 2013/14 totalled £2.322m. It should be noted that some of these relate to grants received in respect of Business Rates, where the impact will not be felt in the collection fund until 2015/16 at the earliest, due to the way the accounting treatment of this account works. A number of other earmarked reserves will be released in year for specific purposes.

2.18 During the last few years, the service budgets of the Council have underspent. Where possible, these underspends are either used to mitigate risks in future years through the creation of specific earmarked reserves, or are reviewed to determine if there are on-going sustainable savings that can reduce the need to find alternative savings.

2.19 To ensure that any ongoing financial implications are identified early, a specific "Budget Challenge" session was held in 2013/14 which reduced the level of savings that needed to be found during budget setting rounds. In 2014/15, a similar review will be undertaken to identify financial trends in all budget areas and 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 2015/16 in January 2015.

Underlying Assumptions around Inflation, Savings and Growth

2.20 **Essential Reference Paper 'B'** 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.

2.21 A number of changes have been made in the underlying assumptions in the model and these include:

- Updates on expected levels of investment income including the release of some of the interest equalisation reserve into the MTFP model
- Increase in Council Tax base growth assumptions to take account of the latest trends on growth in the District
- Updated inflationary assumptions as per the Office of Budget Responsibility (OBR) latest updates

- Changes in salary inflation over the life of the model
- Change in assumptions around Member allowances (to match salary inflation assumptions)
- Reflection of updated Pension deficit payments following the triennial review in 2013/14.
- Reflection of potential future impacts from the next triennial review of Pensions
- Updates on Savings, Growth and Known changes built into the model

2.22 The model assumes that all savings and growth detailed will be delivered, and this is included within the sheets behind the summary model.

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

2.24 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. More detailed modelling will continue throughout the year to ensure the most up-to-date data is used in setting the budget for 2015/16.

2.25 During this planning period, the following are other areas that need to be assessed:

- Review of impact of underspends in 2013/14 and predicted underspends in 2014/15 and whether these are longer-term sustainable savings
- Consideration of any pressures and growth that are identified
- Consideration of any revenue costs and/or savings arising from Capital works identified either through Council funding or external funding (including Section 106 monies)
- Review of impact of investment strategy
- Further review of both earmarked and general reserves

Other factors that need to be considered

2.26 During 2013/14, a triennial review of Pensions was carried out, and the assumptions arising from this review are now included in the model. A number of other changes are also happening over the period of the budget and MTFP in relation to Pensions including auto enrolment, changes in national insurance contributions following the introduction of a new national state pension in 2016 and the next triennial review of the Pensions.

2.27 The Council had no unused capital receipts at 31 March 2014. 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
Local Government Finance Settlement December 2013.

Contact Member: Councillor Michael Tindale – Executive Member for Finance. michael.tindale@eastherts.gov.uk

Contact Officer: Adele Taylor – Director of Finance and Support Services, Extn: 1401. adele.taylor@eastherts.gov.uk

Report Author: Adele Taylor – Director of Finance and Support Services, Extn: 1401. adele.taylor@eastherts.gov.uk