



<b>Council</b>	<b>Tuesday, 05 December 2017</b>	<b>Matter for Information</b>
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**Title: Medium Term Financial Strategy (MTFS) Update**

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## **1. Introduction**

- 1.1. The announcement for the provisional local government settlement for 2018/19 and 2019/20 is due to be made in late December 2017. This will largely confirm the figures published in the multi-year settlement.
- 1.2. For Oadby and Wigston Borough Council, the settlement resulted in a cash reduction of 15% or £0.260m.
- 1.3. This update to the Medium Term Financial Strategy (MTFS) outlines the General Fund Budget for 2018/19 and 2019/20. It identifies that there is a shortfall in funding of £0.400m for 2018/19 and a further £0.400m in 2019/20.
- 1.4. Savings proposals being made to Council on December 5 will look to address these shortfalls, enabling a draft balanced budget to be produced in February 2018.

## **2. Recommendation(s)**

That the contents of the report be noted by Members.

## **3. Information**

- 3.1. This report contains the updated and revised General Fund Revenue Budget for 2018/19 and for 2019/20.
- 3.2. The Council faces unprecedented financial challenges, with government cuts the likes of which have not been witnessed for generations coupled with year on year increases in the demands for services as the Borough's population changes.
- 3.3. It is no longer the days where the budget process could be an annual affair confined to the winter months. Today, it is a year-round process of near constant test, challenge and refinement as funding assumptions ebb and flow as long term savings come to fruition and deliver. It is in this context that the Council must carefully manage its reserves and balances to help smooth the short-term impact of changes to funding and the delivery of long-term savings so that services are protected.
- 3.4. It is also in this context that this report updates the Council on changes to the medium term financial position since July 2017 as further information, particularly around funding that has become available and as savings proposals have been further tested and refined.
- 3.5. This report has been written in advance of the Chancellor's Autumn Statement and before the publication of the Local Government Finance Settlement (due in late December 2017). Both announcements may require changes to our strategy and

these will be incorporated in the statutory Budget Framework Report, which will be presented to Council in February 2018.

- 3.6. This report aims to inform Members as to the latest General Fund Budget situation, in advance of any service delivery and savings proposals and prior to the Draft MTFS being issued in February 2018.
- 3.7. Council in February 2017 approved a budget for 2017/18, and identified a potential funding gap for 2018/19 and 2019/20. Further papers to Council and the Policy, Finance and Development Committee in the summer outlined options for budget savings that would go some way to address this gap. This report includes the financial impacts of those options already agreed, but does not include the options that have yet to be tabled or any final decision to be taken on. It should be noted that a number of options and recommendations will be tabled at the Council meeting on 5 December on the same agenda as this report, and any impact from those decisions will be reflected in the report to Council in February 2018.

#### **4. Objectives of the Medium Term Financial Strategy**

- 4.1. The MTFS has the following objectives:
  - Show how resources support the Corporate Plan over the next 2 years;
  - Provide a platform to support the decision-making framework;
  - Enable the Council to be a proactive organisation;
  - To be an enabler, giving indication to the need to revisit and revise priorities;
  - Ensure sustainable services and reserves are at sufficient levels;
  - Enable development and improvements to our customers experiences;
  - Hold a working balance to help manage unexpected occurrences;
  - To be responsive and able to manage changing risks and needs;
  - Support the Council's service and strategies; and
  - Provide indications of future local taxation levels.

#### **Central Government Funding Settlement**

- 4.2. In December 2015, the Government announced an offer to local authorities of a four year provisional settlement for 2016/17 through to 2019/20. We are currently halfway through this settlement. Pressure continues to increase on local authorities to find further savings in their expenditure on service provision and to look for alternative sources of income as funding from central government continues to reduce.
- 4.3. As part of the four year settlement, the following funding streams were included:
  - Revenue Support Grant;
  - Business Rates tariff and top up payments;
  - Rural Services Delivery Grant; and
  - Transition Grant.
- 4.4. The table below outlines the settlement, as it was announced. Overall, this has resulted in an £0.59m or 28% reduction in funding over the period of the settlement. The provisional settlement indicates that 2018/19 will be the final year that the Council receives core Revenue Support Grant from the Government.

	<b>Revenue Support</b>	<b>Business Rates</b>	<b>Annual Reduction</b>
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	<b>Grant £m</b>	<b>Baseline £m</b>	<b>£m</b>	<b>%</b>
2016/17	0.720	1.410		
2017/18	0.360	1.440	0.33	15
2018/19	0.140	1.490	0.17	9
2019/20	0.000	1.540	0.09	6
<b>Cumulative Reduction</b>			0.59	28

- 4.5. The Government has assumed that local authorities will increase their Band D Council Tax by the maximum amount possible. For 2017/18, this increase was £5, and for the figures in this report, these are based upon the maximum increase also.

## **5 New Homes Bonus Scheme (NHBS)**

- 5.1. In addition to the aforementioned funding, we also see a continuation of the NHBS. This is a non-ring fenced grant which is based on the number and type of housing properties brought on to the ratings list each year. The amount of NHB's generated is split in two tier areas on an 80/20 basis in the favour of Borough Councils.
- 5.2. The continuing reduction in NHB's saw the amount receivable to the Council during 2017/18 reduce by £0.037m compared to the previous year. The figures for 2018/19 anticipates a small increase of around £0.040m.
- 5.3. There were a number of key changes made to the NHB's scheme in 2016 which were highlighted in the MTFs report to Council in February 2017. There have been no further amendments to the scheme at the time of writing the report.
- 5.4. Due to the urban nature of the Borough, the opportunity to develop large scale housing that would increase our NHB funding is severely limited, with the Council receiving one of the lowest levels of funding in the country.

## **6. Business Rates Retention Scheme (BRRS)**

- 6.1. The BRRS came into effect from the 1st April 2013 and now forms a principal element of local government funding. This provides local authorities with a direct financial benefit from economic growth, coupled with exposure to financial risks should there be a lack of growth or even contraction. As highlighted earlier in the report, the financial settlement from government provides a combination of funding schemes, with the baseline funding for the BRR scheme being £1.490m for 2018/19.
- 6.2. Although local authorities are not able to set business rate levels, the amounts collected are a key element of the scheme. Income that is above or below anticipated levels will impact on the income retained locally. To mitigate somewhat against this, a safety net was built so that no local authority's income would fall below a pre-determined level. This level is £1.38m for Oadby and Wigston Borough Council. Equally, should there be any excessive growth above this level, a levy is payable of 50% of the additional growth, and this is paid to the Leicester and Leicestershire Enterprise Partnership (LLEP).
- 6.3. It is the intention of government that the main revenue support grant is removed and moved to a 100% retained business rates system. This was initially mooted in 2015/16, with the planned phasing to be over the life of that parliament and to come

into effect in 2019/20 or 2020/21. However, a snap general election was called in June 2017, and work on this scheme was not included in the Queen’s Speech, meaning there is an element of uncertainty around this. However, the Authority will continue to plan on such a basis until notified otherwise.

- 6.4. As it currently stands, central government is looking to expand its 100% business rates pilots across the country to test how such a scheme would work. The Authority, alongside the other Boroughs and Districts in Leicestershire, the City Council and the County Council have applied to take part in a pilot scheme during 2018/19 (Business Rate Retention Paper, PFD Committee, October 2017). Soundings from Government indicate that this would be across a limited cohort of applications, and most areas across the country have applied to be in the trial. Members will be updated on developments as they evolve. However, if the application were to be successful, the current pooling arrangements would cease for 2018/19, although the Council would still receive our anticipated income to be included in our General Fund Budget.

## 7. Revenue Budget

- 7.1. The General Fund Budget for the financial years 2018/19 and 2019/20 is summarised in the table below. Further details of changes to individual services’ budgets will be found in the annual budget book and the MTFs report issued in February 2018. The budget takes into account key assumptions that are set out later in the report.

<b>Budget Summary</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>
Total Revenue Budget	6,601	6,890	6,590
Central Government Grant	(360)	(140)	0
Other Government Grants	(544)	(360)	(200)
Retained Business Rates	(1,440)	(1,480)	(1,540)
Council Tax Surplus (?)	(68)	(80)	(80)
New Homes Bonus (?)	(408)	(470)	(453)
<b>Net Revenue Budget</b>	<b>3,781</b>	<b>4,360</b>	<b>4,317</b>
Transfers to/from Reserves	(150)	(188)	0
<b>Council Tax</b>	<b>(3,631)</b>	<b>(3,772)</b>	<b>(3,917)</b>
<b>Funding Gap</b>	<b>0</b>	<b>400</b>	<b>400</b>

- 7.2. This provisional budget shows a deficit for both years, with the majority of the deficit falling within 2018/19. This provisional budget does not take into account any of the savings proposals that are being tabled at this Council meeting on 5 December.

- 7.3. The Council published its efficiency plan in October 2016 which established the Authority’s approach to delivering the savings that are required to meet these unprecedented funding reductions. The key features of the efficiency plan included:

- Active asset management;
- Service review and redesign;
- ‘Invest to save’ schemes - these include capital spending that achieves continuous savings in revenue costs or increased income;
- The council will not adopt any scheme, project or services that are not first demonstrated to be at least cost neutral; and
- Commitment to build more housing.

- 7.4. The budget delivered for 2017/18 illustrated significant savings from these efficiency plans. It is imperative that the Council continues to work in this manner to ensure services are delivered and finances are sound.
- 7.5. As part of this continuation, the Council needs to conduct a full review of its buildings and other assets to ensure that they are fit for purpose, providing value for money and identifying how the organisation can utilise such assets to generate income. It is recommended that this work commences in early 2018. Due to the changing shape of the Council and its services, a review of the governance framework should be carried out to ensure that it is maximising both effectiveness and efficiency.

## 8. Changes to Budgets 2018/19 Onwards

- 8.1. The Council's overarching objectives are crucial in setting the Authority's budget for the next two years. It is clear in these financially prohibitive times that growth has been prohibitive, but these themes have been at the forefront in developing services and delivering savings:

- An inclusive and Engaged Borough;
- Effective Service Provision;
- Balanced Economic Development;
- Green and Safe Places; and
- Wellbeing for All.

The Council's Vision "A Stronger Borough Together".

### Revenue Growth

- 8.2. In the current climate, revenue growth budgets have been restricted and constrained to areas considered unavoidable, such as changes in legislation. The table below highlights the areas of significant growth.

Committee	Description	£'000
Service Delivery	Loss of Recycling Income	138
All	Salaries (including potential self-funding pay award)	140
All	Increase in superannuation charge	120
All	Increase in Capital Financing	180

### Revenue Savings

- 8.3. As reported in previous MTFs reports, the scale of funding cuts and the increased pressures on local authorities means that significant financial savings are required. It should be recognised that significant work has been carried out by Officers to ensure that these pressures have been mitigated as far as possible, however, further significant work still needs to be undertaken to ensure the Authority has a balanced budget. Over the years, the focus has been on protecting front-line services, and this remains a key driver.

- 8.4. The aim of the Authority is to provide improved levels of service whilst reducing costs, and this is recognised in the savings already allocated to 2018/19 to assist in achieving a balanced budget.
- 8.5. It should be noted that the significant savings proposals being put before Council on 5 December 2017 have not been included in this report. All agreed savings proposals will be included in the full MTFS report.

## **9. Assumptions**

- 9.1 There are a number of key assumptions that were made in drafting the Medium Term Financial Strategy, and these were:
- Council Tax increase of £5 at Band D;
  - Council Tax base increase of 1.5% for 2018/19 and 1.5% for 2019/20;
  - Pay award of 1%, with contingency to cover awards of up to 3%;
  - Inflation - Contractual 3.6%, General 0%;
  - Interest Rates - reflect the recent increase in Bank of England Base Rates;
  - Staffing vacancy factor of 3%;
  - Formula funding as per settlement agreement - 2018/19-2019/20;
  - A Council Tax Collection Rate of 98.5%; and
  - Fees and charges as agreed at Policy, Finance and Development Committee in October 2017.

## **10. Risk Assessment and Management**

10.1. Oadby and Wigston Borough Council has a commitment to managing risk and its exposure to the various risks it faces. Key to the management of this risk is identifying operational risk when we are developing our service plans, as well as taking a holistic and strategic view when considering risks at corporate level. The Council has a strong record of financial management, but further improvements were recommended by both our Internal and External Auditors to continue in this manner, and to reduce the impact of financial risks to the Authority. Therefore, changes have been made to the budget setting process (including regular and detailed updates throughout the year) but further changes need to be made regarding how risks are monitored and managed.

10.2. Over the next two years the more fundamental financial risks include:

### **10.3. Formula Central Government Funding**

Whilst the provisional funding settlement provided some certainty with respect to local government funding, it still remains unclear as to exactly how funding will work from 2020/21 and beyond. The snap General Election in 2017 further greyed the situation.

### **10.4. New Homes Bonus**

The continuing changes to the delivery of funding regarding the New Homes Bonus scheme can provide troublesome forecasting. However, due to the Authority's size and geography, the limited amount of potential development eases the ability to forecast. However, the inability to deliver significant numbers of new homes reduces our income generation ability with regards to this.

### **10.5. Business Rate Retention Scheme**

The Authority is exposed to an element of risk of reduced income levels if the amount of business rates contracts. There are also a number of other risks associated with this scheme. Firstly the ability to generate new income - as with NHB, the geography of the Borough means that the ability to generate new business rate income is limited, but work within economic regeneration and local plans is going some way to address this. Another significant risk relates to the factors that can impact on the amount of business rates collected. For example, mandatory relief that can be backdated. Business rates revaluation came into effect from April this year, and a centrally held reserve held by the LLEP is set aside to help mitigate any risks arising from this.

#### **10.6. Income Generation**

The Authority currently has limited streams of income generation. Work is being carried out to identify ways of maximising our income streams - ranging from the potential for charging for discretionary services to generating new business streams to supplement income. Local authorities need to become more commercial in their thinking and operating, as the creation of income will enable service protection and improvement.

#### **10.7. Pension Fund**

There is expected to be a broad 2% increase in the superannuation rate in both 2018/19 and 2019/20.

#### **10.8. Self Funding Pay Awards**

Earlier this year, the Government removed the 1% public sector pay rise cap. Whilst this is a relief to workers within the public sector, whose salaries remained static for many years and in many cases decreased in real terms, the burden of coping with any pay rises has to be borne out by the organisation itself, with no additional funding forthcoming from Government.

#### **10.9. Homelessness**

The increase in the homeless population across the country has put an increasing pressure on local authorities and their resources given changes in legislation over previous years. The Authority is actively managing the issue, and is in receipt of minor government grants to assist with this.

#### **10.10 Brexit**

In the eighteen months since Brexit was confirmed, the country has seen various changes. Whilst exports have increased sharply due to the devaluation of the pound, issues linked to the economy are still to be addressed. These issues range from the long term implications on pension funds to capital funding resources that were available from Europe as members of the European Union (EU).

#### **10.11 Local Council Tax Support**

There is no change to the current scheme for 2018/19.

#### **10.12 Interest Rate Movements**

Interest rates have recently risen due to the increase in inflation above the Bank of England's expectations. However, at the time of writing this report, the latest inflation figures were below expected. To that regard, the Authority takes a prudent approach when setting interest budgets.

### 10.13 Universal Credit

This was originally going to move to full service in March 2018. However, the Government have recently announced that this date has been deferred until July 2018. Indications are that authorities who currently operate the full service have experienced significant reductions in income that would normally have been passported through benefit payments.

## 11. Reserves

- 11.1. The Local Government Act 2003 requires the Council's Section 151 Officer to report on the robustness and sustainability of the estimates included in the budget and the adequacy of the reserves for which the budget provides. The Council's policy is to carry out an annual review of all reserves as part of the budget-setting process. This review includes identifying the reserve purpose and advising the appropriate level for each reserve. This work is currently being undertaken and will be completed when the draft budget is put to Council in February 2018.
- 11.2. Additionally, the Section 151 Officer has reviewed the level of General Fund Balances. The Council has used approximately £300k of the general fund balances to address any budget gaps, leaving reserves at around £697k (10% of annual net expenditure). Previous reports have suggested that General Fund Balances would be between 5% and 10% of net expenditure and should be used to cushion financial pressures and stimulate growth. Reserves should not be utilised to plug budget shortfalls. Clear direction is needed with regards to reserves.
- 11.3. It is the opinion of the Section 151 Officer that General Fund Reserves should:
- Not drop below 10% of net expenditure
  - Not be used to plug budget gaps
  - Be used to mitigate against unforeseen risks.

	<b>General Fund Reserves</b>	<b>Earmarked Reserves</b>
	£'000	£'000
Estimated Opening Balance 2018/19	740	1810
Estimated use during the year 2018/19	140	188
Estimated Closing Balance 2018/19	600	1,974
Estimated use during the year 2019/20	0	38
Estimated Closing Balance 2019/20	600	1936

Members will note that it is best practice to only use reserves in support of one-off revenue items and support capital expenditure. Reserves are not used to support ongoing revenue expenditure.



**Background Documents:**

Report to Full Council (Extraordinary) on 6 July 2017

Reports to the Policy, Finance and Development Committee on 10 and 31 October 2017

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<b>Implications</b>   Medium Term Financial Strategy (MTFS) Update	
<b>Finance</b> <b>Stephen Hinds</b> (Director of Finance and Transformation / Section 151 Officer)	The financial implications feature throughout this report.
<b>Legal</b> <b>Dave Gill</b> (Head of Law and Governance / Monitoring Officer)	Whilst this report is for noting, it should be remembered that the Section 151 Officer has a statutory duty under s 151 of the Local Government Act 1972 and s 73 of the Local Government Act 1985 to ensure that there are proper financial arrangements in place to administer the Council's financial affairs. The Council is also required by the Local Government Finance Act 1992 to produce a "balanced budget".
<b>Corporate Risk(s) (CR)</b> (Director of Finance and Transformation / Section 151 Officer)	<input checked="" type="checkbox"/> <b>Decreasing Financial Resources (CR1)</b> This report highlights the reducing central government funding to local authorities and highlights the funding gap needed to be found over the next two years. <input checked="" type="checkbox"/> <b>Effective Utilisation of Assets/Buildings (CR5)</b> Whilst only mentioned in dispatches, the review of the Council's asset base is recommended to be undertaken. <input checked="" type="checkbox"/> <b>Regulatory Governance (CR6)</b> This report is aimed to improve the level of information received to ensure statutory regulations are met. <input checked="" type="checkbox"/> <b>Organisational/Transformational Change (CR8)</b> The financial issues raised in this report encourage the Council to continue its transformation programme to ensure improved and efficient use of resources.
<b>Corporate Priorities (CP)</b> <b>Stephen Hinds</b> (Director of Finance and Transformation / Section 151 Officer)	<input checked="" type="checkbox"/> <b>Effective Service Provision (CP2)</b> The need for effective service provision underpins a balanced medium term financial strategy.
<b>Vision &amp; Values (V)</b> <b>Stephen Hinds</b> (Director of Finance and Transformation / Section 151 Officer)	<input checked="" type="checkbox"/> <b>"A Strong Borough Together" (Vision)</b> <input checked="" type="checkbox"/> <b>Accountability (V1)</b> <input checked="" type="checkbox"/> <b>Teamwork (V3)</b> <input checked="" type="checkbox"/> <b>Innovation (V4)</b> <input checked="" type="checkbox"/> <b>Customer Focus (V5)</b>
<b>Equalities &amp; Equality Assessment(s) (EA)</b>	There are no equalities implications.
<b>Stephen Hinds</b> (Director of Finance and Transformation / Section 151 Officer)	<input checked="" type="checkbox"/> <b>Not Applicable (EA)</b>