Policy, Finance and Development Committee	25 March 2014	Matter for Decision

Title: **Medium Term Financial Strategy 2013/14 to 2016/17**

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Introduction

To consider and approve the Medium Term Financial Strategy (MTFS) 2013/14 to 2016/17.

Recommendations

1. The Committee is recommended to approve the Medium Term Financial Strategy as set out in this report.

Information

The MTFS sets out clearly the Council's financial position for the four years from 2013/14 to 2016/17. The financial strategy underpins the Council's priorities and ensures that resources are allocated and used effectively to achieve these priorities without placing an unreasonable burden on local tax payers.

The strategy sets out the financial planning framework for the Council and shows how national and local issues are taken into account in planning resources available for service delivery. The strategy also sets out the main financial pressures affecting the Council and finally sets out the financial objectives of the Council.

In March 2013 the Medium Term Financial Strategy for the period up to 2015/16 was approved by the Policy, Finance and Development Committee. In October 2013 the Policy, Finance and Development Committee approved the budget strategy for the financial year 2014/15. It outlined that the Council historically adopted a budget process that derived its base budget each year from the previous year's original budget and that for the 2014/15 budget this process would be continued. Additionally it highlighted key issues that would impact on this budget as:

- Current financial position including working balances and level of reserves
- Local government finance settlement
- The review and revision of the business rates pooling situation
- The review and revision of our Local Council Tax Support Scheme
- Any further advancements in Welfare Reform (Universal Credit)
- Limits on New Homes Bonus funding
- Availability of capital resources and prudential indicators

- Housing Revenue Account (HRA) and the impact of self financing and rent convergence
- Transformation of services

The Council's budget proposals were approved by the Council on 25 February 2014. The MTFS later in this report shows the following:

- The Council is in a stable financial position with reasonable confidence that this situation will prevail until at least 2015/16
- A more challenging position arises from 2015/16 with the revised MTFS showing a deficit of over £689,000.
- Extreme difficulty in making reliable forecasts about government funding from the financial year 2015/16 onwards (2014/15 being the end of the current spending review period)
- Progressive replacement of core formula funding with New Homes Bonus (NHB) and more variable funding stream
- Reserve and balance levels are adequate
- Financial discipline and work to identify more efficiency savings must continue

The Budget proposals that were approved at the above Council are consistent with the financial projections used in this MTFS.

<u>The Way Forward - Member's Financial Strategy and Policy Prioritisation</u>

Hopefully, members will see that it is clear from the information set out in this report, together with the additional inevitable unknowns, that local government and even the Government are not yet aware of the financial position for UK public services over the coming years.

The Council can congratulate itself that due to its well thought through and well applied approach of the last few years aligned with strong financial stewardship, that it continues to maintain its solid financial position and that it manages its finances and resources well.

As yet and because of this, members have not, so far, been faced with making difficult policy decisions about service provision which most other councils seemed to have.

Three key issues from 2014/15 put the Council's future financial position into stark context:

1. Again, this Council received the worse financial settlement (in terms of Spending Power) of all of the district councils in Leicestershire.
2. The Council is committed to continue to provide free shoppers car parking in its town centres and is one of only a handful of councils in the entire country that now injects this investment directly into its local economy which is to be lauded. The consequence of this, however, is that the Council then forgoes the financial benefit of a multiple six figure income stream that other councils derive from parking charges.

3. Due to the borough's compact size and therefore lack of available development land the Council is never going to be able to attract the level of NHB that other councils will. The Government is factoring the receipt of NHB into the reason why it will be reducing the level of national local government finance. In the case of Oadby and Wigston Borough Council the low receipt from NHB is the primary reason for our low Spending Power as mentioned above.

Members will hopefully see that on this basis from 2015/16 onwards there is little possibility that the Council will be able to balance its budgets as it has successfully done in the past without the need for members to make critical policy decisions about service provision and use of reserves. As has been the hallmark of the way the Council has worked successfully for a number of years it is therefore essential that these member policy decisions should be well thought through and fully considered in good time.

Medium Term Financial Strategy (MTFS)

The Council's MTFS is an essential component of its service and financial planning framework sitting alongside the treasury management strategy, capital strategy, asset management plan, risk management strategy, procurement strategy and ICT strategy. It should reflect the Council's policies and priorities and match resources to the delivery of those.

The MTFS is set each year as part of the annual budget setting cycle and is refreshed accordingly to give an up-to-date representation of the financial position as currently known and is based on a number of assumptions.

The current MTFS was approved in March 2013. This reflected the Council's priorities and the financial position for revenue and capital over the medium term of four years. This revised strategy reflects updates to some of the assumptions made, identifies new assumptions where needed and sets out the emerging financial pressures and challenges faced by the Council.

The Council's Policy Context

In May 2011 the Council set out its vision for its four year administrative period:

- Protect and continue to deliver the good quality, consistent, value for money frontline services provided to residents, particularly weekly refuse and recycling collections.
- Enhance the green environment of the borough so that residents are able to take full advantage of it.
- Revitalise the town centres through development and by retaining free shoppers' car parking.
- Work with the police to create a safer borough so people feel more comfortable and at ease.
- Improve community engagement including listening to and delegating more to the three town forums.
- Work with others to try and improve the health and wellbeing of the residents of the borough.

- Work smarter to deliver the efficiency savings required to meet the existing budget cuts.

The Council continues to deliver on all these commitments. This is only made possible, however, because of the Council's seventh commitment, which is its determination and success in working smarter to deliver the efficiency savings required to meet the increasing national budget challenges.

The strategic aims that the Council has and is adopting in order to focus are:

1. to Continue a comprehensive review of all of its assets resulting in more active asset management. Members will then be able to clearly determine which of the Council's assets could and should be making a financial return, breaking even and being subsidised for the benefit of residents.
2. A fundamental service review and redesign that will place residents, particularly those who will be affected by the national welfare reforms, at the heart of the process that will support and empower them to be able to deliver, understand and successfully navigate all of these reforms.
3. The continuation of a successful 'investor saving' programme where one-off expenditure is prioritised and opportunities are created and seized in order to generate or save revenue funding in the longer term.
4. To ensure that the Council never adopts any schemes, projects or services that are not first demonstrated to be at least cost neutral and therefore should never be an additional burden to local Council Tax payers.
5. A determination to take full advantage of the government now allowing Councils to build new houses. The Council is aiming to build on average at least 5 a year from 2014/15.

These priorities and strategic aims will:

- Focus and drive forward the Council's strategic planning.
- Form the basis of the Council's Medium Term Financial Strategy.
- Provide the direction for allocating resources and restructuring.

The MTFS complements the updated Corporate Plan (to be presented to Policy, Finance and Development Committee in July 2014) by setting out the anticipated resources available to enable delivery of corporate priorities. It predicts the costs that will be incurred and estimates available income and thus quantifies the level of flexibility within the budget or savings necessary to balance the budget as the case may be.

The MTFS covers the updated Corporate Plan period of a rolling four year basis and thus the updated MTFS is for the period 2013/14 to 2016/17.

The MTFS focuses on the General Fund budgets for all services except council housing, which is addressed by the separate HRA Business Plan.

In a formal sense the MTFS is approved by this Committee annually as part of the budget setting process and should undergo a formal mid-year review by officers with a report submitted to this Committee in the autumn.

The MTFS provides the financial blueprint from which the Council is able to deliver value for money in the provision of efficient and cost effective services across the borough. Through implementation of the authority's financial and other resource strategies it seeks to build on minimising any budget gap between expenditure and resources as well as providing a clear direction to the attainment of the Council's longer term goals.

The MTFS is the Council's key financial planning document that sets out the Council's strategic approach to the management of its finances and Council Tax levels. The strategy underpins the Council's priorities for the community and complements its internal priorities set out in the update Corporate Plan and other strategic documents of the Council. It is important to note that the key aim of the MTFS is to facilitate the Council in achieving the targets set out in those documents by setting parameters to work within, setting financial targets, identifying additional resources for priorities and developing financial projections to manage any deliverability or sustainability issues. This has been especially important as since 2008 the Council has had to operate in an economic climate which has seen the country go into recession and the size of the national deficit increase. The Council's MTFS reflects the impact from both the community and the Council in continuing economic conditions whether that be historically low interest rates, depressed income streams or additional support being required by residents of the borough.

Due to the ongoing uncertainty surrounding the levels of public expenditure, particularly around future government support funding, and the Council's financial position, various assumptions that were forecast have been updated within the MTFS with all known information from the government, CIPFA and other organisations. It is highly likely these assumptions forecast will need to be revised, updated and if necessary re-presented over the coming months.

Strategic Financial Objectives

The Council's financial strategy balances the Council's commitment to a regime of financial rigour, prudence and discipline with the need to facilitate innovation through strong financial management.

The Council has seen a reduction in the amount of formula grant since 2011/12 which increases the financial pressures facing this and all other councils. In 2012 Sir Jeremy Heywood, the Cabinet Secretary, said that the work to balance public finances is only about a quarter complete, adding that 'spending cuts could take up to ten years'. That timetable could see the public spending squeeze carry on until 2020. In the Autumn Statement the Chancellor announced in December 2013 that the public squeeze would carry on past the election in 2015 and there is a strong likelihood of grant cuts in these future years as well. The changes to Council Tax and Business Rates and Universal Credit also have the potential to become a burden if new responsibilities are not supported by appropriate levels of funding. If the Council is to achieve its strategic financial objectives effective prioritisation and management of resources like the setting of the budget and response to new variances, value for money initiatives and partnership working have become increasingly significant in meeting the challenge.

In addition the following underlying principles for financial planning purposes within this report can be summarised as follows:

- To achieve and maintain a balanced General Fund budget such that ongoing expenditure matches income from Council Tax fees and charges and government and other grants with reserves only being used to finance one-off items of priority related expenditure. This will remain the Council's strategic aim but the Council should consider on an annual basis whether to set this objective aside where severe economic pressures exist.
- To consider as part of the budget setting process throughout the year as necessary what support can be given to the community and businesses in times of particular hardship.
- To use the Council's reserves in a cost-efficient and planned manner to deliver the Council's priorities.
- To maximise the Council's income by promptly raising all monies due and minimising the level of arrears and debt write-offs.
- To identify alternative means of resourcing the capital strategy to minimise the impact of borrowing on the General Fund.
- To maintain general revenue reserves no lower than a minimum of 10% of net expenditure of the General Fund.
- To only incur additional ongoing spending when matched by increased income or identified savings.
- To ensure that resources are aligned with the Council's updated Corporate Plan and corporate priorities.

National Context

The leaders of our public services are currently faced with meeting unprecedented challenges in the way their councils are run and the services that they deliver. There is a consensus shared across the political parties and other commentators that a plan to reduce the UK's deficit must remain a priority although the magnitude of the reductions and speed of the delivery is not agreed upon. The implementation of a national deficit reduction plan has led to significant real term spending reductions in many public organisations.

Last year's Autumn Statement also showed that the public sector borrowing is now projected to be higher than previously forecast and although it is still projected to fall year on year, this is projected to be at a slower rate than previously anticipated. It is forecast by a number of commentators that these revised forecasts have implications for deeper public spending cuts.

As a result the assumptions and projections have continued to evolve. The MTFS has been updated to reflect all the government's announcements on public finances and an attempt has been made to interpret the range of announcements still to come. However it should be noted there is likely to be further updated projections and forecasts required.

Risk Management Implications

The implications are included within Appendix 1 of this report.

Key Assumptions Used

Necessarily, the four year forecast is based on assumptions about the future. Below are the key assumptions used. Members should be comfortable that the assumptions are reasonable and neither unduly optimistic nor pessimistic.

Workforce

As members will appreciate by far the most significant element of any council's budget are the staffing costs and this is no exception in Oadby and Wigston. Over the last four years the Council has been through a huge transformation including a complete review and the consequent streamlining of the entire staffing structure. This has resulted in over 34 less posts on the establishment which has contributed annual savings of in excess of £1.03 million and being one of the main factors in successfully balancing the council's increasingly challenging annual revenue budget. Aligned to this the Council has also been through a complete Job Evaluation exercise and, after consultation, has also successfully harmonised all terms and conditions of employment.

Not only has the reorganisation saved money through creating efficiencies it has also made the council more service and outcome focused, corporate and innovate.

The financial challenges of the coming years will dictate that, in relation to the workforce, the council will still have to:

- Continue to seek further efficiencies although it is envisaged and hoped that this will be without the need for any further major restructuring of operational staff
- Introduce the National Minimum Living Working Wage for all of its staff.
- Change the philosophy and practice of how staff will interact and support residents/customers with the introduction of the national welfare reforms.

Government Funding

Government funding has always had a degree of unpredictability about it with formula grant levels not confirmed until shortly before the budget has to be finalised and some funding often not known until the start of the year after budgets are set. However uncertainty about government funding continues to be at an unprecedented high level especially from 2015 onwards.

The government has issued a financial statement for 2014/15 and a provisional settlement for 2015/16. The government is carrying out a new spending review in 2014 which will undoubtedly have implications for local government finance but an accurate prediction of the effects on the Council is not possible. From the financial year 2015/16 onwards there is huge conjecture because the unforeseeable outcomes from the 2015 General Election and the ongoing implications of economic underperformance and the government deficit reduction plan. Finally 2013/14 saw the implementation of game-changing

reforms in local government finance, the effects of which are difficult to predict. Producing a four year forecast in these circumstances is not straightforward.

Core funding currently comes by way of formula funding which is £2,774,279 in 2014/15. The amount for 2015/16 is £2,318,330. There is no information about formula grant from 2016/17 onwards however it is expected that the trend established in the four year comprehensive spending review period of 2010/11 to 2014/15 will continue. During this period the Council has sustained a 35% cut in its annual level of core funding, around £372,000 per year. The average cut is therefore 8.75% and the MTFS assumes that this will be the annual reduction in each year from 2015/16 onwards.

The formula funding figure for 2014/15 includes £1,316,174 as the government's estimate of the Council's share of business rates under the new localised business rates system. This figure is based upon complex formulae and an array of tariffs, top ups, levies and safety net adjustments. There are many variables e.g. collection performance, rateable value appeals, business growth, insolvencies released, bad debts. The actual figure will not be known until the end of the financial year. The downside risk is mitigated by the safety net mechanism. In 2013 the Council took the decision to pool its element of retained business rates with other authorities in the county in an attempt to maximise the income from central government.

Under the new legislation the Leicestershire Authorities agreed to set up a business rate pool which became operative from 1 April 2013. However, in setting up the pool it was agreed that income and the pool mechanism would be reviewed during the year to ensure there were the benefits envisaged. The legislation allows the business rates pool to be terminated and also if this decision is made the pool can be re-enacted at a later date.

The Business Rate Pool performance has been monitored during the year and the inherent risk in pooling business rates have increased in the last 12 months due to:

- Lack of certainty around rating appeals
- Continued uncertainty around the detailed operation of various aspects of the new regime
- A more negative outlook on perspective business rate outturns amongst Authorities
- The increase in political profile of the burden of business rates on businesses and the increased likelihood that changes adverse to Local Authorities would be introduced.

Given the potential downside, the nature of the pooling calculation means that Authorities may be better off operating individually as they can qualify for "safety net" payments from the Government.

It is difficult to produce reliable estimates on perspective pool outturns for 2013/14 and 2014/15. However, indicative forecasts are deficits for both years. Because of these uncertainties and the high level of risk it was agreed between the Leicestershire Authorities that the pool be terminated for 2014/15. The

decision for this Council was determined under delegated powers agreed in setting up the pool by the Chief Executive and Chief Financial Officer in consultation with the Leader and the Chair of the Policy, Finance and Development Committee.

Going forward, it is hoped that more clarity on the detailed operation of the business rates regime and the appeals position will emerge enabling a firmer view of the prospects of pooling in 2014/15. Assuming greater clarity is received regarding business rates pooling, the Leicestershire Authorities can re-consider the possibility of a new pool being established for 2015/16 during the summer of 2014.

Under the business rates pooling partnership agreement there is no liability for this Council if the pool does not make a surplus in 2013/14.

New Homes Bonus

The 2010 comprehensive spending review included a new special fund from 2011/12 onwards for new homes bonus with an additional incentive for the provision of affordable housing. The allocations for the new homes bonus received to date with projections for future years are included in the forecast. The use of these resources to support the budget has reduced the level of overall savings required. In summary, it is a six year rolling scheme with councils receiving a sum equivalent to the average Council Tax bill, around £1,500 for each new dwelling brought back into occupation (Band D equivalents) the table below illustrates the rolling nature of the funding:

New Homes Bonus						
Housing Growth Year End	**Year 1 2011/12 Actual £ 000's**	**Year 2 2012/13 Actual £ 000's**	**Year 3 2013/14 Actual £ 000's**	**Year 4 2014/15 Actual £ 000's**	**Year 5 2015/16 Estimate £ 000's**	**Year 6 2016/17 Estimate £ 000's**
Oct 2010	73	73	73	73	73	73
Oct 2011		6	6	6	6	6
Oct 2012			98	98	98	98
Oct 2013				61	61	61
Oct 2014					54	54
Oct 2015						97
Total	**73**	**79**	**177**	**238**	**292**	**389**
		MTFS PERIOD				

Referendum and Council Tax Freeze

The 2011 Localism Act abolished the previous Council Tax capping regime. In February 2014 the government announced that any increase in Council Tax above 2% would need to be put to a referendum.

In view of the Council's decision to freeze its Council Tax for 2014/15 the budget assumes that the Council will not be required to undertake a referendum.

The Council will be entitled to a Council Tax freeze grant equivalent to a 1% increase £37,634 for 2014/15 and for 2015/16. This grant income has been included in the budget for these years.

Council Tax

In recent years the government's policy has been to strongly encourage Council to minimise Council Tax increases.

At the Council meeting on 25 February 2014 the Leader of the Council reaffirmed that there would be no increase in Council Tax levels for Oadby and Wigston Borough Council in either 2014/15 or 2015/16.

Consequently, the MTFS includes a planned assumption that the borough Council Tax would be frozen in 2014/15 and 2015/16 at £202.60 for a band D property. For 2016/17 it has been assumed that there will be a 1% increase to £204.63

The MTFS also assumes no annual tax base growth. This is a prudent assumption based on recent experience.

The Council has adopted a new system of Local Council Tax Support (LCTS) which became operative from 1 April 2013. LCTS will give Council Tax discounts to low income households replacing Council Tax benefit which was abolished. The government has provided ongoing funding for LCTS.

The table below shows projected Council Tax income over the MTFS period.

Council Tax	**2013/14 Revised Budget £ 000's**	**2014/15 Original Budget £ 000's**	**2015/16 Forecast £ 000's**	**2016/17 Forecast £ 000's**
Council Tax Income	3,266	3,335	3,335	3,369
Council Tax Support Funding	372	0	0	0
Net Council Tax Base	**3,638**	**3,335**	**3,335**	**3,369**
Change on Previous Year		**(303)**	**0**	**34**
Borough Council Tax (£) (Per Band D Property)	**202.60**	**202.60**	**202.60**	**204.63**

Assumes no change in Council Tax property base year on year

Inflation Assumptions

Inflation (January 2014) is at 2.8% (RPI) and 1.9% (CPI). Analysts predict short term volatility but a medium term decrease towards the governments 2% CPI target. The cost of fuel and utilities remains volatile, however, subject to larger cost increases and general price inflation.

The government's pay policy for public sector employees is to cap increases at 1% per annum. For local government national pay bargaining arrangements apply and there's no guarantee that government pay policy will be applied. This is something that the Council has no control over. A freeze has been in place since 2009. This seems unsustainable so the MTFS prudently assumes a 1% annual pay award together with the following inflation assumptions:

MTFS Assumptions	**Value of 1% Change £ 000's**	**2014/15 Original Budget £ 000's**	**2015/16 Forecast £ 000's**	**2016/17 Forecast £ 000's**
Pay Award	**49**	**49**	**49**	**49**
Contracted Supplies and Services	**10**	**32**	**31**	**31**
Fuel	**2**	**10**	**10**	**10**
Utilities	**1**	**3**	**3**	**3**
Fees and Charges	**17**	**34**	**34**	**34**

Other Assumptions

It is estimated that population growth will remain stable causing no additional demand on services for the period of the MTFS.

Capital financing costs increase from £539,000in 2014/15 to £541,000 by 2016/17.

Recharge of costs to the HRA will be subject to an inflation increase.

Investment income will remain constant at £56,000 per annum.

The collection fund balance will be nil from 2014/15 onwards.

The working balance will be maintained at a level equivalent to 10% of the net General Fund expenditure.

Four Year Financial Model

Based upon the draft 2014/15 budget approved by Council on 25 February 2014 and the assumptions detailed in this report a four year forecast has been prepared and is summarised below.

Four Year Financial Model	**2013/14 Revised Budget £ 000's**	**2014/15 Original Budget £ 000's**	**2015/16 Forecast £ 000's**	**2016/17 Forecast £ 000's**
Service Expenditure	8,609	8,653	8,778	8,982
Service Income	(1,964)	(2,034)	(2,091)	(2,150)
Net Service Expenditure	6,645	6,619	6,687	6,832
To/(From) Reserves	46	(300)	10	10
Corporate Items:				
Pensions Increase	0	0	77	77
Capital Financing	311	539	540	541
Investment Income	(56)	(56)	(56)	(56)
Recharge to HRA	(185)	(201)	(207)	(213)
Net GF Expenditure	**6,761**	**6,601**	**7,051**	**7,191**
Formula Funding	(2,860)	(2,774)	(2,532)	(2,310)
CT Freeze Grant	(127)	(166)	(203)	(203)
New Homes Bonus	(177)	(238)	(292)	(389)
CT Support Funding	(372)	0	0	0
Collection Fund Surplus	(17)	(88)	0	0
Use of General Fund Balances	58	0	0	0
Council Tax Income	(3,266)	(3,335)	(3,335)	(3,369)
Funding Deficit	**0**	**0**	**689**	**920**

The figures are a logical progression from those presented for 2014/15 and take into account those key factors for which the details are known or assumed in the MTFS. It is recognised however that forward forecasts over a number of years carry the risk of increased uncertainty. The figures indicate that on a standstill basis with no additional resources for service development there will be a deficit of over £689,000 in 2015/16. It is therefore essential that to make the budget sustainable consideration is given on means to close the gap between spending proposals and available resources over the coming twelve months.

The position for 2016/17 shows a further deterioration in the position with a funding deficit of £920,000. However, because of the added uncertainty created by a general election in 2015/16 these figures should be taken as purely indicative.

The General Fund balance and the reserves will need to be reviewed. However, part of the funding gap may need to be met from spending reductions, service cuts and increased income opportunities.

New Leisure Facilities

In 2013/14 the Council undertook a major procurement project in relation to the letting of leisure management services. The contract with the successful bidder is due to commence on 1 April 2014 for a period of 20 years. As well as the management of the facilities, the contract also involves considerable redevelopment and refurbishment. The contract will save, on average, over £180,000 per annum in costs over the life of the contract These savings have been included in the General Fund revenue budgets for 2014/15 to 2016/17 as well as the revenue implications of capital redevelopment costs of around £10m (including ancillary costs such as survey and planning fees).

Reserves

The Council is required to establish reserves to meet expected future financial commitments and to ensure a safe level of contingency in the event of unforeseen events. This was included in the budget report approved by Council on 25 February 2014.

The Council's policy established in previous reports is to ensure that a working balance is maintained at a minimum safe contingency level equivalent to 10% of the General Fund's net expenditure which for 2014/15 is £660,150 This is subject to annual advice provided by the Section 151 Officer under Section 25 of the Local Government Act 2003.

Based upon the projected use of reserves included in the four year budget model the following table sets out the forecasted reserve balances during the period covered by the MTFS.

Reserve Balances	2013/14 Revised Budget £ 000's	2014/15 Original Budget £ 000's	2015/16 Forecast £ 000's	2016/17 Forecast £ 000's
General Fund Balances				
Opening Balances	730	788	788	99
Surplus in Year	58	0	0	0
Funding Revenue Expenditure	0	0	(689)	(920)
Closing Balance	**788**	**788**	**99**	**(821)**
Earmarked Reserves				
Opening Balances	4,390	5,053	4,661	4,896
Receipts in Year	1,565	225	225	225
From General Fund	150	0	0	0
From Revenue Income	10	10	10	10
Funding Capital	(948)	(317)	0	0
Funding Revenue Expenditure	(114)	(310)	0	0
Closing Balance	**5,053**	**4,661**	**4,896**	**5,131**

The table shows that total reserves stay at reasonable levels up to and including the financial year 2014/15. This should ensure that the Council has time to plan for difficulties expected in the longer term and to take the necessary steps to ensure continued stability from 2015/16 onwards.

Strategic Solutions

In order to ensure that the four year MTFS is sustainable the following work streams are being worked on:

- Shared services
- Evolution
- Income generation
- Service reduction
- Efficiency savings

However, there is more to do. Because of the inherent volatility and conjecture in the MTFS projections and the demanding position to ensure that the MTFS is sustainable in the medium term the Council must continue efforts to ensure it is well placed to meet future challenges.

The Council has created a new Income Profiling Reserve which will guard against unforeseen fluctuations in levels of fee income for items such as planning and building control fees.

Economic Outlook

The continued impact of the downturn in the country's economic fortunes has had the following significant effect on the Council's budget for 2014/15 and forecasts for the subsequent years:

- Interest rates continue at a low level and the current bank base rate of 0.5% is forecast to remain at this level throughout 2014/15. This will mean that to maintain the current level of return on cash investments the risk appetite for these may increase. This is detailed in the Treasury Strategy and Plan reported elsewhere on the agenda.
- Income from services that reflect economic activity may be at a reduced level including planning application fees, building control charges and other areas of Council income. This may restrict the Council's ability to utilise additional income as an alternative to cutting expenditure and levels of service.
- Capital receipts from sale of surplus lands and buildings are depressed with no obvious sign of recovery in the short and medium terms. This factor has been built into the estimates of available capital funding.

Decision Making

Inevitably during the period of the MTFS resource allocation decisions will be required based upon changes of circumstances and priorities. Some budgets will need to be increased and some reduced.

The Council will seek to safeguard those services that it considers to be its highest priority as stated in the updated Corporate Plan.

The Council may make savings in priority areas only if there is no significant adverse impact to quality and level of service provision. For example the Council may find a more efficient means of delivering the service or partnership funding may be secured. Otherwise the Council will not make savings that result in diminution of service quality in these areas unless there is absolutely no alternative e.g. inability to balance the budget.

The Council acknowledges the need to provide statutory services and in many cases these will be consistent with the updated Corporate Plan priorities. Where the link between the need to provide a statutory service and updated Corporate Plan priorities is not as strong the Council will provide a level of service consistent with affordability. Efficiency gains and partnership working will be explored as means of providing statutory services to an acceptable level at a lower cost. In some circumstances the Council will consider reducing the level of service in order to make savings and redirect resources to the Council's highest priorities.

Subject to the above unavoidable and essential growth items will be funded by the making of savings from elsewhere within the Council budget or the generation of additional income. The Council will manage its budget as a corporate whole, if necessary transferring money from one activity to another if this is what is necessary to match limited resources to the highest priorities.

In ordinary circumstances the Council will not use reserves to fund any ongoing expenditure. In exceptional circumstances the Council may use reserves for one-off items or to alleviate budget pressures within the context of an overall plan to achieve a balanced budget but will seek opportunities to replenish reserves consumed in this way.

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Background Papers:-

- The Council's Medium Term Financial Strategy approved by Policy, Finance and Development Committee in March 2013
- The Budget Proposals 2014/15 Report approved by Council on 25 February 2014
- Budget Strategy 2014/15 to 2015/16 approved by Policy, Finance and Development Committee on 29 October 2013

Implications	
Risk Management	The implications are shown at Appendix 1.
Financial	Incorporated within this report.
Equalities (AC)	No significant implications.
Legal (AC)	No significant implications.