EAST STAFFORDSHIRE BOROUGH COUNCIL

REPORT COVER SHEET

Title of Report:	Medium Term Financial Strategy 2018/19 – 2021/22
Meeting of:	Council
Date:	26/2/2018
Is this an Executive Decision:	No
Is this a Key Decision:	Yes
Is the report Confidential:	No
If so, please state relevant paragraph from Schedule 12A LGA 1972:	n/a

Essential Signatories:

ALL REPORTS MUST BE IN THE NAME OF A HEAD OF SERVICE

Monitoring Officer

Date …………………. Signature ………………………..

Head of Service and Chief Finance Officer

Date …………………. Signature ………………………..

OPEN AGENDA

E A S T S T A F F O R D S H I R E B O R O U G H C O U N C I L

Report to Council

Date: 26th February 2018

TITLE:	Medium Term Financial Strategy 2018/19 – 2021/22
PORTFOLIO:	Finance
HEAD OF SERVICE:	Sal Khan - Head of Service
CONTACT OFFICER:	Lisa Turner – Chief Accountant ext. x1399
WARD(S) AFFECTED:	All

1. Purpose of the Report

1.1 The report sets out for members the Medium Term Financial Strategy (MTFS) for the period covering the four year period 2018/19 to 2021/22. This includes the Council's Capital Programme and the Asset Management and Capital Strategy, which is set out in Appendix C to this report.

1.2 Members should also note that there will be further report elsewhere on the Council agenda relating to the Council's Treasury Management Strategy for 2018/19, which dovetails into both the Council's revenue and capital commitments. If members have any questions on the detailed estimates and papers it would be beneficial to advise the officers in advance so that answers can be available.

1.3 Cabinet met to consider the proposed MTFS report on 12th February 2018 and recommended its approval to Council with one amendment. This related to a reduction in the proposed saving allocated to the Mayoral Activity Budget from £20k to £13k to reflect a re-alignment of the base budget.

1.4 Members are also reminded that in accordance with Section 106 of the Local Government Finance Act 1992, any Member in council tax arrears is unable to participate in the debate and decision making in relation to the budget and council tax setting.

2. Executive Summary

2.1 The announcement of the provisional local government settlement for 2018/19 was made in December 2017 and confirmed in February 2018. This largely confirms the figures published in the multi–year settlement deal previously agreed – extending the period of unprecedented funding reductions to local authorities until 2019/20.

2.2 For East Staffordshire the settlement has resulted in a cash reduction of 20% or approximately £0.8m over the two year period to 2019/20. When added to those reductions seen during the previous parliament, this results in a **cumulative reduction in formula funding of £6.5m or 79% since austerity measures began in 2011/12**. Further details of the settlement can be found at Section 5 of the report.

2.3 Our continued strategic approach to financial planning has enabled us to once again respond to this challenging settlement positively, ensuring wherever possible that priority front line services are protected whilst **proposing a freeze in the levels of Council Tax for 2018/19 – the ninth year in a row where the authority has either not increased or reduced its element of the charge**.

2.4 The multi-year settlement announced in 2016/17 established a central government policy change in relation to increases in council tax. There is an expectation within the government's core spending power calculations that individual authorities will increase council tax slightly below the level that would trigger a referendum – £5 or 3% for this authority. The settlement states "The Government will strike a balance between addressing service pressures and giving local council tax payers the final say in excessive increases" **This was reflected in council tax statistics, which indicate that nationally approximately 91% (182 of 201) District Councils increased council tax in 2017/18 by on average 2.8%. Of those authorities that increased the lowest amount was 1.6%.**

2.5 As part of the settlement the Government announced that it intends to change the current Business Rates Retention Scheme, which is based on 50% retained by local authorities, to a scheme which means 75% is retained by local authorities. This is planned to be implemented by 2020/21 alongside the business rates reset, as well as the fair funding review and is also likely to take into account a spending review in 2019. The potential impact of these changes when combined cannot be under-estimated and this represents significant uncertainty in terms of the financial resources available from 2020/21 onwards. With this in mind, the proposals within this strategy assume a cash freeze in relation to the core government funding settlement from 2020/21 onwards, which could potentially be significantly more challenging than these assumptions.

2.6 **The New Homes Bonus Reserve has been utilised to balance the budget, this amounts £0.1m in 2018/19 rising to £1.4m in 2021/22**. The use of reserves in this manner can only be a temporary measure and is not sustainable in the medium or long term. As a result there is an ongoing requirement to find savings and in the longer term less reliance on New Homes Bonus funding is likely to be required. The Council's strategy for delivering the required savings is set out within the published efficiency plan, which is summarised at paragraph 8.3.

2.7 Alongside the settlement the Government also published its proposals in relation to the New Homes Bonus Scheme, this follows several consultations undertaken in recent years aimed at reducing the amount of funding provided to authorities. **The outcome means that despite above average housing growth our funding will be scaled back by £0.5m in 2018/19 to £1.6m from £2.1m in 2017/18**. Due to the levels of uncertainty surrounding this funding going forward, only 65% has been incorporated into the base budget, with the remainder earmarked towards the repayment of debt and the release of long term revenue savings. Further details in relation to New Homes Bonus are set out in Section 6 of the report.

2.8 This proposed Medium Term Financial Strategy incorporates the estimated impact of the business rates retention and local council tax support schemes that were introduced from 1st April 2013. These schemes continue to transfer significant risks to local authorities, as well as volatility. Within this environment we have been prudent in our estimates, setting aside sums to mitigate the risks. These risks, alongside other key financial risks that the Council must manage are outlined in Section 11 of the report. The strategy also assumes that Council Tax will increase by up to the maximum without needing a referendum from 2019/20 onwards.

2.9 In addition to the above pressures arising from a reduction in central funding, the authority also has significant ongoing local pressures amounting to approximately £0.5m. These pressures arise from a combination of issues, including central government removing the public sector pay cap, inflationary pressures and increased service demand due to housing growth, with further details set out in paragraph 9.3.

2.10 The authority has a pro-active and rolling approach to financial planning and has identified a number of savings proposals for 2018/19, which total in excess of £1.3m. This includes the removal of approximately 5 FTE posts from the establishment. Details of the most significant savings are detailed at paragraph 9.5.

2.11 The Council's Capital Programme is included within the MTFS, along with the supporting Asset Management and Capital Strategy. The Capital Programme makes provision for the Neighbourhood Working Scheme, Disabled Facility Grants, and cultural services development at part of the procurement exercise for external provider(s). There are also sums allocated to support a reduction in debt costs and funding remains available to support further projects, such as the regeneration of Burton Town Centre. In accordance with the Capital Strategy, these will be brought forward for approval once there is a fully developed business case in place. The Council, in accordance with CIPFA's Prudential Code, must consider the impact of the Capital Programme on the prudential indicators, this is set out within the Treasury Strategy.

2.12 The Council's Chief Financial Officer is required annually to report on the robustness of reserves and of the budget in totality. The General Reserve is risk assessed at a minimum level of £1.3m. This is consistent with previous years and amounts to just 2% of gross spending. Further details in relation to reserves are set out at Section 14.

2.13 The report concludes that the Chief Financial Officer views both the revenue and capital budgets are prudent and affordable. Both budgets take account of external demands, service pressures and risks and leave the Council with a comfortable level of reserves. Looking ahead to 2019/20 and beyond, the scale of savings required is a significant challenge. Consistent with our efficiency plan, members and officers will need to identify more effective ways of service delivery in order to identify the required savings.

2.14 In approving the MTFS the level of Council tax required will be £167.30 (Borough Council at Band D), a freeze at the 2017/18 level. A separate report will be on Council agenda for formal approval of the overall Council tax for 2018/19.

3. Contribution to Corporate Priorities

3.1 The Medium Term Financial Strategy contributes to and underpins all priorities.

4. Objectives of the MTFS

4.1 The MTFS has nine objectives, to:

- Show how resources support the corporate plan over 4 years,
- Provide a platform to support the decision making framework,
- Enable the Council to be proactive rather than reactive,
- Act as a barometer and give early indication of the need to revisit priorities,
- Support sustainable services and ensure reserves are sufficient,
- Hold a working balance to respond to unexpected events,
- Be responsive to changing risks, needs and legislation,
- Support the Council's service and core strategies, and
- Provide indications of future Council tax levels.

5. Central Government Funding Settlement

5.1 In December 2015 the government announced an offer to local authorities of a four year provisional settlement for 2016/17 to 2019/20. The offer was conditional on authorities publishing an efficiency plan and was subject change due to uncertain future events and annual inflation adjustments to the business rates baseline.

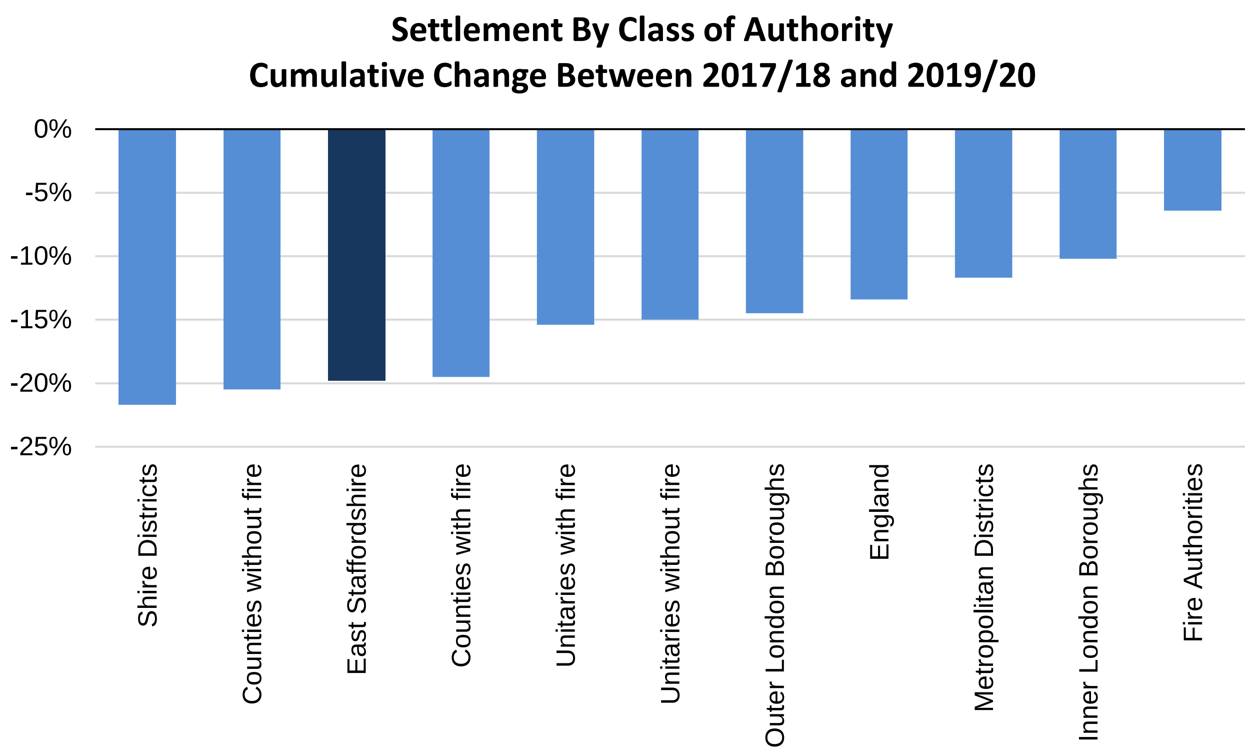
5.2 The Council published its efficiency plan in September 2016 and subsequently accepted the multi-year settlement offer. Subject to the annual business rates inflation adjustment, these figures were re-confirmed as part of the provisional local government finance settlement for 2018/19 in December 2017. Nevertheless, incorporated into the multi-year settlement is a business rates tariff adjustment, this is more commonly referred to as "negative RSG". For this authority it amounts to a payment of £97k to Central Government in 2019/20. Local authorities alongside the LGA have lobbied central government on this issue, and as part of the December 2017 Settlement the Secretary of State announced that a consultation will take place in Spring 2018 to look at "*fair and affordable options for dealing with Negative RSG".*

5.3 The table below sets out the settlement, as announced. Overall, this results in a £0.75m or 19.8% reduction in funding over the remaining two years of the multi-year settlement period. The provisional settlement indicates that 2018/19 will be the final year that the Borough Council receives core revenue support grant from the Government *(the settlement includes a combination of revenue support grant and the business rates baseline which authorities retain – although this is subject to flexibility via the Business Rates Retention Scheme – Section 6).*

Table 1	Revenue Support Grant £m	Business Rates Baseline £m	**Formula Funding £m**	Annual Reduction	
				£m	%
2017/18	0.813	2.987	**3.800**		
2018/19	0.383	3.077	**3.460**	**0.340**	**8.9%**
2019/20	-	3.049*	**3.049**	**0.411**	**11.8%**
			Cumulative Reduction	**0.751**	**19.8%**

*includes business rates tariff adjustment, also known as "negative RSG"

5.4 The graph below compares the funding reductions during the period 2017/18 to 2019/20 between different classes of authority. The reduction for East Staffordshire compares favourably against the average reductions for both District Councils and County Councils, although is significantly higher than both London Boroughs and Metropolitan areas. This is because the Government recognise that County/Districts are able to generate significantly more income from raising Council Tax than metropolitan areas.



5.5 The table below compares the funding settlements since austerity measures began in 2011/12 with the 2010/11 base amount. This shows funding allocations, adjusted to take into account the transfers, to allow for direct comparisons across the years and demonstrates the unprecedented scale of reductions.

Table 2	Formula Funding* £m	Cumulative cash reduction	
		£m	%
2010/11	**8.220**	-	-
2011/12	**7.053**	1.167	14%
2012/13	**6.166**	2.054	25%
2013/14	**5.849**	2.371	29%
2014/15	**4.890**	3.330	41%
2015/16	**3.928**	4.292	52%
2016/17	**3.083**	5.137	62%
2017/18	**2.447**	5.773	70%
2018/19	**2.107**	6.113	74%
2019/20	**1.696**	6.524	79%

*after adjustment for transfers in

The above table demonstrates **a cumulative cash reduction of £6.5m or 79%**, on a like for like basis, since 2010/11.

5.6 The figures in the above table can be reconciled back to the settlement announced by government by adding back the transfers that have taken place during this period. These relate in the main to the transfer of responsibility for local council tax support and also the new funding announced by government for those authorities that froze council tax during the last parliament. This reconciliation is shown in the table below in relation to 2019/20:

Table 3	2019/20 £m
Comparator Figure (Table 2)	**1.696**
Local Council Tax Support Funding	**0.922**
Council Tax Freeze Funding	**0.381**
Homeless Prevention (previously a separate grant)	**0.050**
Funding – as per Settlement (Table 1)	**3.049**

5.7 From 2016/17 onwards the settlement incorporated changes to the funding model which results in higher central government funding reductions for those authorities with relatively greater levels of income from council tax – on the basis that these authorities have the ability to generate additional income locally from raising council tax. This was a significant policy change, which is also reflected in the Government's published core spending power projections for individual authorities which show council tax increasing slightly below the level which would trigger a referendum.

5.8 The Government set the council tax referendum limit for lower tier authorities such as East Staffordshire at £5 or 3% (whichever is higher) for a Band D Property (£5 is the equivalent of 3% for ESBC). For upper-tier councils with responsibility for Social Care this is up to 6%.

6. New Homes Bonus Scheme

6.1 In addition to the formula funding, we also see the continuation of the New Homes Bonus Scheme. This is a non-ring fenced grant which is based on the number and type of housing properties brought on to the rating list each year. The amount of New Homes Bonus generated is split in two tier areas 80/20 in favour of District Councils.

6.2 The Government previously implemented changes designed to “sharpen” the scheme. These were ultimately aimed at reducing the cost of the scheme and therefore the level of funding to authorities, including scaling back the number of years that payments would be received from six to four by 2018/19, as well as the introduction of a baseline at 0.4%. A further consultation took place during 2017, which made proposals that would further reduce funding, however following feedback from local authorities these are not proposed to be implemented for 2018/19.

6.3 Despite the scaling back of funding, our new homes bonus allocation for 2018/19 is favourable with an increase in properties on the list of 531, well above the average seen in the previous three years (374). **The net result is a cumulative payment of £1.6m in 2018/19, compared with £2.1m in 2017/18. Considering the extent of scaling back undertaken by the Government, this is a very positive outcome**.

6.4 Due to future uncertainty in relation to the scheme, the proposals within the Medium Term Financial Strategy continue to assume that only 65% of the cumulative allocation is built into the base budget. It is proposed that the remainder be utilised towards the repayment of debt, which will deliver ongoing savings to the revenue budget.

7. Business Rates Retention

7.1 The business rates retention (BRR) scheme came into effect from 1st April 2013 and forms a principal element of local government funding. This provides local authorities with a direct financial benefit from economic growth, but also exposure to financial risk as a consequence of economic contraction. As detailed above, the settlement provides a combination of provisional grant allocation or Revenue Support Grant (£0.383m) and the baseline funding (£3.077m) for the BRR Scheme.

7.2 A key determinate of local government funding is the actual business rates collected. Income above or below the expected level of business rates impacts on locally retained income. However there is a safety net built into the scheme to ensure that no authority’s income falls below a set level, for East Staffordshire this is provisionally set at £2.847m. Likewise there is levy payable, in our case to the Birmingham and Solihull LEP, on any business rate growth above the baseline, for East Staffordshire this is set at 50%. Without membership of the GBSLEP business rates pool the levy would be payable directly to Central Government

7.3 Alongside the provisional settlement in December 2017, the Government announced that it intends to move to a system based on 75% retention of business rates by 2020/21, alongside the planned 2020 business rates reset. There will still need to be a system to re-allocate funding within the sector, with some existing grants rolled into business rates and potentially further responsibilities devolved in order to make this feasible. There have been a number of consultations and working groups taking place during the course of 2016/17 and 2017/18 in order to develop the revised scheme and this is expected to continue into 2018/19. At this stage it is not clear what the design of the new scheme will look like and the consequential implications. Members will be updated as the proposals evolve.

7.4 There are a number of existing pilots testing new business rates arrangements ahead of the roll out in 2020/21. Existing pilots are in devolved areas and during 2017 the government announced that London authorities will also be piloting the new scheme in 2018/19. The Government invited bids to become pilots from all other local authorities for 2018/19. The principal benefit from being a pilot is the retention of 100% of growth within the pilot area, as a result was a lot of competition. The Council submitted a joint bid with all other Staffordshire Authorities, which if successful was likely to result in windfall growth of at least £0.2m. The successful bids were announced alongside the provisional settlement with the Staffordshire bid being unsuccessful. The Government have indicated that there will be a further opportunity to apply to be a pilot in 2019/20.

7.5 The table below provides a breakdown of the forecast business rates income built into the MTFS for 2018/19 and 2019/20.

Table 4 : Retained Business Rates	**2018/19 £000**	**2019/20 £000**
Forecast Net Business Rates	52,167	52,811
Central Government Share (50%)	(26,084)	(26,405)
Major Preceptors Share (10%)	(5,217)	(5,281)
ESBC Share (40%)	20,866	21,125
Section 31 Grants	1,258	1,285
Less Tariff to Birmingham*	(18,192)	(18,596)
Pre-levy retained business rates	3,932	3,814
Section 31 Grant (CPI cap)	82	79
Levy to GBSLEP	(427)	(334)
Volatility Provision	(247)	(247)
Post Levy Retained Business Rates	**3,340**	**3,312**

Baseline	**3,077**	**3,146**
Safety Net	**2,847**	**2,910**

7.6 It is apparent that at both a local and national level there is a significant amount of volatility within the business rates scheme, largely arising from the level of reliefs and appeals which can have a significant impact on the business rates collected. The Council has established a business rates reserve in order to manage this volatility.

7.7 In addition to which, business rates is due to be "reset" in 2020, with any achieved growth above the baseline being re-distributed across the sector. It is therefore crucial that the authority takes a prudent approach and is not exposed to a "cliff edge" in relation to the forecast business rates income being built into our financial plans. With this in mind, the proposals within this strategy assume business rates income for 2020/21 and beyond at £0.1m above baseline.

Business Rates Pooling

7.8 As part of the BRR scheme the Government has given local authorities the opportunity to work together to form Business Rates Retention pools. East Staffordshire Borough Council has joined a pool aligned with the Greater Birmingham and Solihull LEP. The principle advantages being:-

- Working together to support and benefit from economic growth across the wider economic region;

- The potential to retain additional resources from business rate growth within the regional pool (the levy is payable to the pool rather than central government).

7.9 The establishment of a pool means that any levy on growth that would normally be payable to central Government can be retained locally. However, the pool must make its own arrangements for safety net payments to individual member authorities.

7.10 It should be noted that the governance arrangements for the GBSLEP pool establish that the authority will be no worse off from membership of the pool than would be the case without a pooling arrangement. However in the event that there are insufficient funds within the pool, it is possible that individual members would be required to meet their own shortfall. The pool has established arrangements to enable 32.5% of any retained levies to be re-distributed back to the contributing member authorities. Since the scheme was implemented we have received £0.4m in re-distributed funds from the Pool, which would otherwise have be payable directly to Central Government.

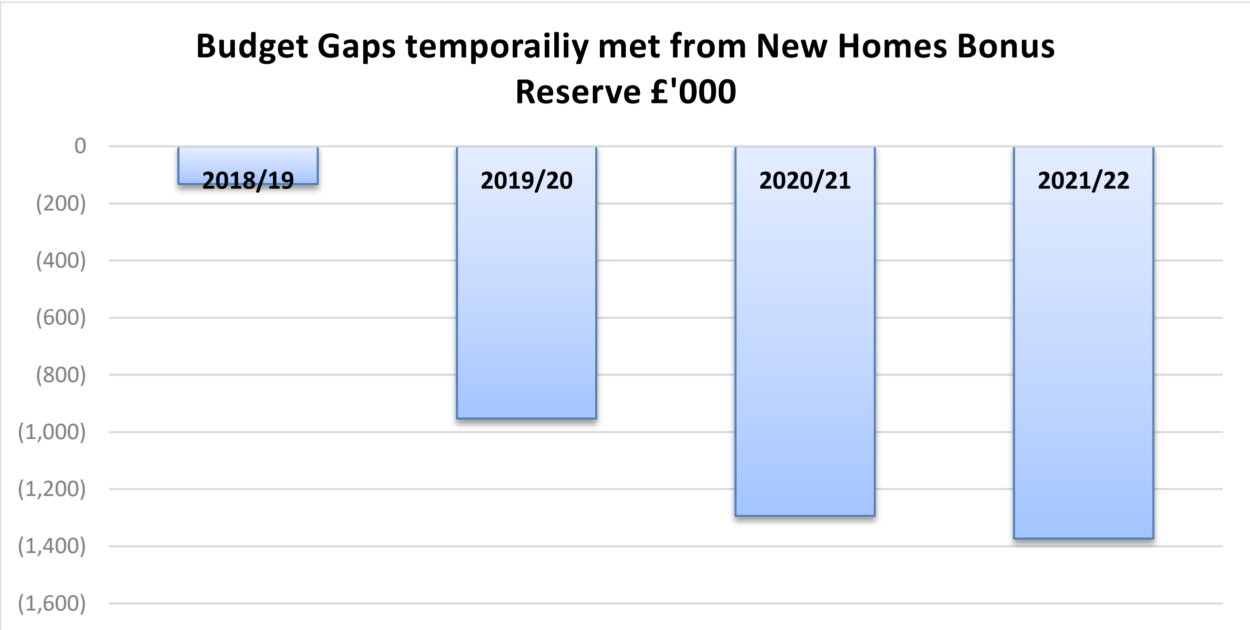
8. Revenue Budget

8.1 The revenue budget for the financial years 2018/19 to 2020/21 is summarised in the table below, with an expanded summary at Appendix A. Further details of changes to individual services budgets can be found in the annual budget book. The budget takes into account the key assumptions set out in Section 10.

Table 5 : Budget Summary	**2018/19 Budget £'000**	**2019/20 Budget £'000**	**2020/21 Budget £'000**	**2021/22 Budget £'000**
Total Revenue Budget	**10,667**	**11,124**	**11,683**	**12,055**
Central Government Grant (RSG)	(383)	-	-	-
Government – Tariff Adjustment/Negative RSG	-	97	230	299
Retained Business Rates	(3,340)	(3,312)	(3,378)	(3,446)
Council Tax Surplus	(220)	(85)	(85)	(85)
Support from the New Homes Bonus Reserve	(132)	(953)	(1,294)	(1,374)
Special Expenses	(446)	(446)	(446)	(446)
Council Tax	**(6,146)**	**(6,425)**	**(6,710)**	**(7,003)**
Council Tax Increase (Band D)	0%	£5	£5	£5

**includes a 1.5% increase in the tax base*

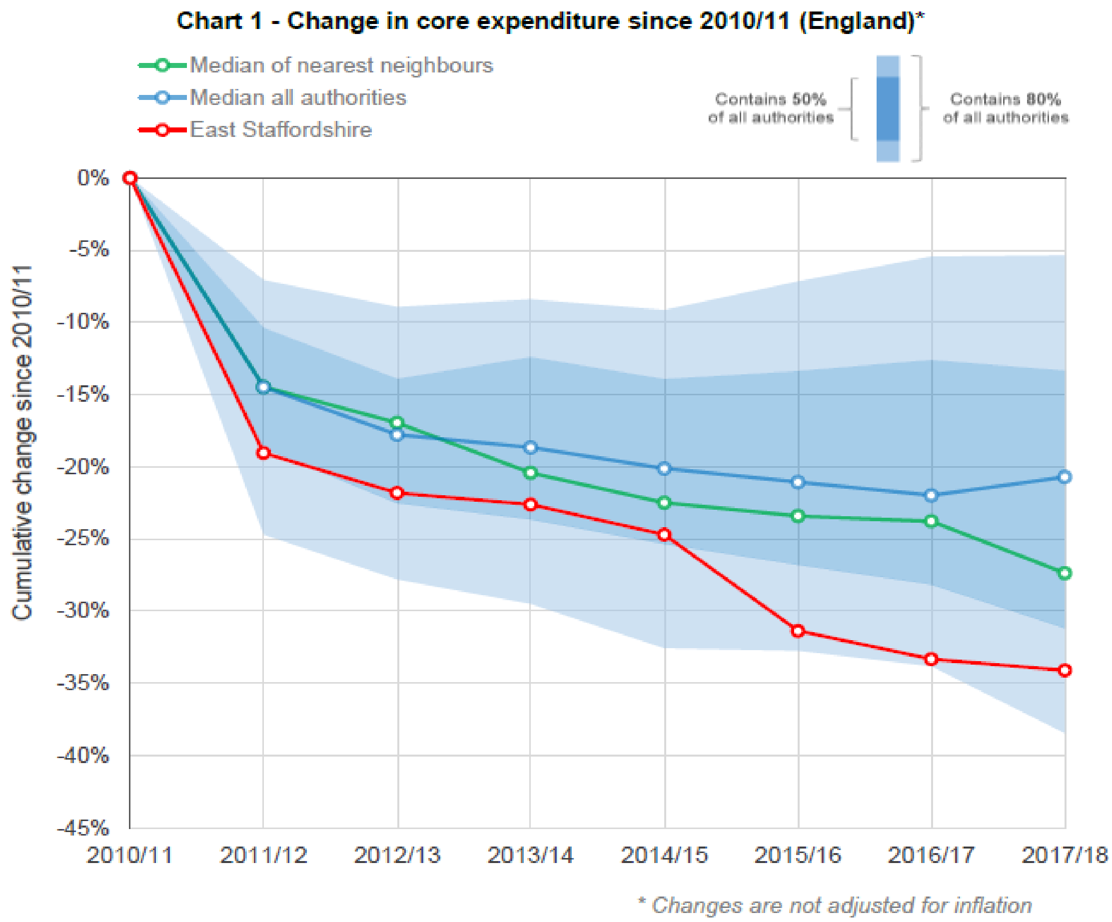
8.2 The use of the New Homes Bonus Reserve to balance the budget can only be on a temporary basis, as the nature of reserves are that they are one-off resources and should not normally be used to fund ongoing expenditure. The graph below demonstrates the scale of the financial challenge ahead. For 2020/21 and beyond, there is a great deal of uncertainty in relation to future funding levels due to the proposals for a significantly revised local government finance system and the expectation of a spending review in 2019. It is possible the resource estimates within these forecasts for 2020/21 and beyond could be significantly more challenging. As a result there is an ongoing requirement to identify and deliver savings.



8.3 The Council published its **efficiency plan** in September 2016, this establishes our approach to delivering the savings required to meet the unprecedented funding reductions that are set to continue until at least 2019/20. The key themes within our plan are identified below:

- Reviewing the service delivery options associated with our cultural services;
- Maximising the use of our assets, incorporating a shift to more home and mobile working;
- Maintaining an open mind to external partnership working, whenever the business case fully supports this approach;
- Seeking to support business and encourage economic development, generating additional income from retained business rates;
- Seeking to deliver new homes, generating additional new homes bonus funding;
- Keeping under review discretionary fees and charges;
- Seek to further utilise internal shared services; and
- A challenging and commissioning approach to procurement.

8.4 The Council has a successful track record of delivering savings, however opportunities for future savings are limited. The graph below is drawn from national data sets and compares the Council's reduction in expenditure levels with comparable authorities since austerity measures began. This highlights that the Council has consistently delivered higher reductions than the vast majority of comparable authorities.



9. Changes to Budgets 2018/19 onwards

9.1 The Council has published priority themes and these have been at the forefront of the budget setting process. Whilst in the current economic conditions growth has been severely restricted, these priorities have been at the forefront during the process of identifying the necessary savings to balance the budget:

- Value for money council services – protecting your money
- Promoting local economic growth – to benefit local people by turning aspiration into reality, and
- Protecting and strengthening communities – love where you live.

9.2 Outcomes from budget setting surveys (2014 and prior years) have enabled all residents to tell the authority what they saw as budget priorities. The key findings from these surveys have always been very consistent and are summarised as follows:

- The authority should not reduce the funding for waste collection, street cleaning and anti social behaviour.
- Approximately 32% said they wanted a below inflation level of council tax rise, even if it meant service cuts
- Approximately 60% of those surveyed said that they would be happy if Council Tax rises were in line with inflation/above inflation if levels of service were kept the same or improved.

Once again these findings have been taken into account when identifying the savings needed to meet both the centrally imposed budget reductions and also local pressures. A budget setting survey will be undertaken during the course of 2018, in advance of the budget setting for 2019/20.

Revenue Growth

9.3 In the current climate revenue budget growth has been severely restricted and in reality limited to unavoidable areas. The most significant items of revenue budget growth are set out in the table below:-

Table 6: Revenue Growth – 2018/19

Portfolio	Description	£'000
Environment	Smarter Waste Collection Review – Vehicle Procurement	163
	Waste Contract Inflation	22
Regulatory Services	Car Parking Income Review and re-alignment of base	71
Cultural Services	Brewhouse and Town Hall – Staffing Maternity Cover	25
	Leisure Income, partially offset by premises savings	23
Regulatory Services	Open Spaces – Contract Inflation higher than anticipated	11
Corporate	Central Government - Lifting Public Sector Pay Cap	162
	Total	**477**

Revenue Savings

9.4 Given the scale of reductions announced in the 2016/17 to 2019/20 settlement, it was evident that significant budget reductions would continue to be needed for the foreseeable future. Considerable financial savings have been delivered in recent years predominately via a series of re-structuring exercises, a reduction of the senior management team, various procurement savings and internal shared services. These budget reductions were largely focused on ensuring that the Council's priority front line services were protected.

9.5 It is clearly good practice to provide the same or better service at a reduced cost, a principle which this Council has followed for many years. The table below is a list of significant saving initiatives (those £10k and above) and increased levels of income which have affected 2018/19 and future year's revenue budgets. **In total approximately 5 full-time equivalent posts have been removed from the draft estimates for 2018/19 compared to 2017/18**.

Table 7: Savings 2018/19 onwards	**£'000**
Items £50k and above	
Office Accommodation Move	227
Debt Repayment – Use of Windfall Revenue	211
New Homes Bonus Allocation	168
Debt Repayment – Use of Capital Receipts	153
Neighbourhood Working– Staffing support/revenue grant reduction	124
Cemeteries Income – Price review and re-alignment of base	68
Closure of Public Conveniences	60
Capital Financing and Investment Budgets	55
Items £20k to £49k	
Interim Senior Management Arrangements – pending outcome of Cultural Services Procurement	43
Staff Re-engineering – Land Charges / Planning	34
Industrial Unit Income – Re-negotiated leases	26
Court Costs Recovery	24
Legal and Assets – Staffing Re-structure	21
Facilities – Industrial Unit Statutory Inspections	20
Items £10k to £19k	
Legal Cost Recovery – Re-alignment of base	14
Car Parking – penalty Charge Notice processing costs	14
Environmental Health – Staffing re-alignment (DFG in-house provision)	14
Mayoral Activity Budget – re-alignment of base	13
Audit Fees – Procurement	13
Street Cleaning – Staffing re-structure	13
Sponsorship Income – Outperforming budgets	10
Environmental Health – Reduction in expenses	10
Total	**1,335**

9.6 The revenue budget also assumes that car parking charges will be introduced at Branston Water Park. This will generate additional income to support the maintenance costs estimated to be £3.5k net of costs.

10. Assumptions

10.1 Key assumptions made in drafting the Medium Term Financial Strategy are:-

- Potential pay awards averaging 2.7% for 2018/19 and 2019/20, 2% thereafter.
- Estimated superannuation increases following triennial revaluation,
- Staffing vacancy factor of 2% included.
- Formula funding as per settlement notification 2018/19 – 2019/20, cash freeze thereafter;
- A 98% council tax collection rate
- Increased tax base of 1.5% per annum from 2018/19
- Interest rates on investments 0.5% (2018/19), 0.75% (2019/20), and 0.75% (2020/21).
- Council tax increases as per table 5 above.
- New Homes Bonus – 65% of estimated awards included in base budget.

11. Risk Assessment and Management

11.1 The Council is committed to managing its exposure to risk. A key component of this is identifying risks as part of service planning (operational risks) as well as considering more strategic and corporate risks. In mitigation against these risks there may be financial implications: the more fundamental financial risks over the medium term are as follows. These have been highlighted Red/Amber/Green taking into account the scale of impact and the likelihood of occurrence.

- **Formula Central Government Funding**. Whilst the provisional settlement covering the next two years provides a degree of certainty, there remains a risk that these figures could change. For 2020/21 and beyond, the Government have also indicated that they intend to undertake a needs based review of funding levels prior to the implementation of the revised 75% locally retained business rates scheme. The next spending review is expected in 2019 and this will influence resource availability for the sector. When combined these factors represent a significant risk to the authority and the sustainability of existing services going forward.

- **New Homes Bonus**. The changes to the New Homes Bonus Scheme make predicting the levels of future grant very challenging. The main issues being the future levels of deadweight built into the system and the possibility that housing growth rewards will be based on relative performance across the sector. In addition to which, as we move towards the new local government finance system there is no guarantee that this funding stream will be retained. With this in mind, we have only built into our base budget 65% of the projected allocations.

- **Business Rate Retention Scheme**. As set out within Section 7 of the report the Council is potentially exposed to the risk of reduced income levels as a consequence of business rates contraction. As well as economic growth or contraction, there are a number of other factors that can impact on the business rates collected, including the number and level of mandatory and discretionary reliefs and also valuation appeals. For example, many councils, including East Staffordshire, have received applications from NHS Trusts for mandatory rate relief, which if successful could be subject to backdating. If these applications are successful this would potentially reduced our annual Business Rates income by £0.2m, with a substantial one-off impact for the backdating. Due to the safety net built into the scheme these risks are limited to £0.5m for 2018/19 and £0.3m thereafter. This has been considered as part of the reserves strategy, with a specific reserve to deal with business rates volatility. The business rates revaluation came into effect from April 2017, together with a new system of appeals. This may also have an impact on locally retained income, for example it is very difficult to predict the timing and extent of any appeals against the new list, particularly as there continues to be a great deal of uncertainty surrounding the new appeals system.

  The table below sets out the degree of sensitivity to changes to these key areas of funding:

Table 8: Sensitivity Analysis **Every 5% reduction in income compared to the 2018/19 estimate**	
Income Stream/Source	**£'000**
Business Rates (Safety net)	491
Government Finance Settlement	173
New Homes Bonus	82
Fees and Charges Income	305

- **Income Generation**. The authority generates a substantial amount of income from services such as planning, building consultancy, markets, recycling, and parking. We have seen in recent years that the economy and other factors such as the weather can have a significant impact on the levels of income generated, which could have a negative impact on the budgets. This is mitigated to some extent by adopting a prudent approach to budget setting and also routine and robust risk based budget monitoring throughout the year. However, the authority has set aside a sum of £0.1m in 2018/19 to mitigate against the risk of a shortfall in service income levels.

- **Costs Passed from Other Public Bodies.** This extended period of austerity is having a significant impact on all public bodies. This can on occasion lead to decisions being made by one organisation in order to reduce their costs having either an indirect or direct consequences in another part of the sector. Specific risk areas identified include the government's implementation of Universal Credit as well as the introduction of the Housing Reduction Act and recycling credits which are administered by Staffordshire County Council.

- **Pension Fund.** The triennial review of the council's pension fund took place as at March 2016. The medium term financial strategy makes provision for increased contribution levels up to 2021/22, including a lump sum payment in advance. However, in the longer term there are a number of factors that can have a significant impact on future pension contribution levels, including the performance of the economy, life expectancy levels and fund membership numbers.

- **Pay Awards.** The recent lifting of the public sector pay cap imposed by central government has resulted in growth to the MTFS for 2018/19 onwards. This is currently based on the employers' offer which amounts to 2% for 2018/19 and 2019/20 with higher increases for those on lower salaries. For every 1% above this offer awarded there is an additional cost of £0.1m per annum.

- **Brexit / EU Referendum.** The outcome of the EU referendum has already had an impact on the economy, with initially lower interest rates and the impact on the value of the pound. As the negotiations for the UK's exit from the EU develop there are a number of risks which are linked to the economy. These include the long term impact on the pension fund, economic impact on local levels of income such as car parking, leisure activities and business rates, together with demand for local council tax support.

- **VAT Partial Exemption De-minimus**. The authority is limited to the extent that it can recover VAT in relation to exempt activities, such as Brewhouse, sports tuition and lettings. The de-minimus level is set at 5% and our future projections indicate that we are close to this level. Nevertheless, a provision of £0.1m has been allowed for within reserves, should this level be breached.

- **Housing Growth**. The Borough Council has seen significant housing growth in recent years and this is likely to continue. Whilst housing growth generates additional revenue from council tax receipts and new homes bonus, this also generates additional expenditure to deliver services to these households. Whilst we have recently strengthened our Waste Collection Service to support this additional growth, in the medium to long term further pressures are likely to arise from continued growth.

- **Local Council Tax Support.** From April 2013 the Local Council Tax Support Scheme came into effect. There are a number of risks associated with this, including the extent of any new applicants and over the medium to long term, changes in demographics. The extent of this risk for the Borough Council is limited to approximately 12%, being our share of the overall Council Tax bill. Levels of Council Tax Support have reduced in recent years and the provision for this, built into the tax base, has been made on a prudent basis.

- **Capital Receipts.** The revenue budget assumes savings of £150k from a reduction in the underlying debt by utilising capital receipts from the sale of assets already approved. Should these receipts not materialise within the timescales anticipated an in-year cost pressure would need to be managed. It is envisage that this could be facilitated through the debt repayment reserve on a temporary basis.

- **Interest Rate Movements**. Predicting interest rate movements over the coming period is a highly uncertain business, indeed it is possible, that base rates will have changed between the writing of this report and the holding of this meeting. However the authority has taken a prudent approach to setting interest budgets.

11.2 The above risks and mitigating actions have been taken into account in reaching a view on acceptable levels of general fund reserves.

12. Special Expenses

12.1 The level of increase for each parish is being limited to a maximum of 3.5%. For 2018/19 special expenses have been frozen in total, which results in a reduction in the rate payable by residents in those areas where the tax base has increased.

13. The Capital Programme and the Prudential Code

13.1 The Council has identified potential capital resources in the form of grants, receipts and revenue funding in the region of **£7.5m** available to fund capital proposals.

13.2 The following schemes are proposed to be taken forward at this stage:

- A continuation of the **Neighbourhood Working Scheme (£0.1m per annum**) for two years to 2019/20;

- Supporting communities through **Disabled Facilities Grants,** with this being funded via the Better Care Fund (assumed award of **£0.9m**);

- Capital Support for the **Cultural Services Procurement** exercise of up to **£1m**, to support building works and maximise revenue budget savings;

- Use of capital receipts for the **Repayment of Historical Debt,** which will reduce the costs of servicing this debt to the revenue budget and help to protect frontline services and keep council tax increases low **(£3.8m**);

13.3 Furthermore, proposals are currently being developed in relation to **Burton Town Centre Regeneration**. These include an over-arching independent consultants report, new paving, plants and street furniture, way finder posts and potentially new bollards technology.

13.4 The Council does not currently have any plans to utilise the additional flexibilities announced in December 2015. These relate to the use of capital receipts to meet the one-off revenue costs associated with transformation and the delivery of ongoing savings. However it is proposed to adopt a policy going forward to set-aside 20% of all future capital receipts to support the repayment of historical debt.

13.5 There is a link between the capital programme and the Council's MTFS. Two issues arise:-

- Capital schemes can have direct revenue consequences – for example a new property will impact on business rates, insurance, utility costs and staffing or new infrastructure or equipment could result in additional maintenance costs, and

- The funding of the capital scheme will affect the revenue budget whether by incurring borrowing costs or by losing investment interest on capital receipts used to finance capital expenditure.

Prudential indicators illustrate the full impact of capital on revenue and these are set out within the Treasury Management Strategy.

13.6 Members will recall that the Local Government Act 2003 introduced a new financial regime for local authority capital expenditure. The system is based on self regulation with freedom to invest, provided the programme is affordable, prudent and financially sustainable.

13.7 The Treasury Management Strategy provides further information on the capital programme and its impact upon the prudential indicators. The Council's underlying need to borrow for capital purposes (the Capital Financing Requirement) is a key indicator of prudence. When compared with the estimated external debt it ensures that, in the medium term, the Council is borrowing only for capital purposes. The capital financing requirement is due to reduce in the medium term as a result of the annual statutory and approved voluntary repayments – with no current plans for expenditure to be met from borrowing.

13.8 Historically the Council's level of external debt has been relatively high in comparison to neighbouring authorities. In recent years the council has taken steps to improve this by adopting the approach of utilising windfall monies from New Homes Bonus to support a reduction in the underlying debt and reduce the cost to the revenue budget. This Medium Term Financial Strategy proposes to continue this approach by utilising windfall revenue from New Homes Bonus (£0.5m), the revenue outturn surplus from 2016/17 (£0.4m) and Business Rates (£0.8m) monies, as well as capital receipts (£3.8m) to support the reduction of debt costs. Continuing this approach will enable savings to be maximised when current tranches of external debt mature in 2025/26.

14. <u>Reserves</u>

14.1 The Local Government Act 2003 requires the Council's Chief Financial Officer to report on the robustness and sustainability of the estimates included in the budget and the adequacy of 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 preparation process. This includes identifying their purpose, and advising on the appropriate level for each reserve. This has been undertaken and Appendix B provides a summary of the reserves and their expected movements.

14.2 In the current climate, reserves can be viewed as an indicator of financial resilience. During the course of the year the council has compared its level of revenue reserves with those authorities within our CIPFA comparator group, as well as similar authorities within Staffordshire. Whilst this can only be viewed as a guide, due to each authority potentially having different risks to take into consideration, this indicated that our reserves are broadly in line with the average. As we move towards the new local government finance system in 2020/21 it is increasingly important that the Council holds a suitable level of reserves to support sustainability.

14.3 Additionally, the Chief Finance Officer has reviewed the level of general reserves. The minimum advisable level of general reserves remains set at a level of £1.3 million, commensurate with significant business risks (as set out in section 11). This equates to just 2% of gross annual spending and takes into account specific reserves that have been established to mitigate against the most significant risks.

Table 9: Reserves Forecast

	General Reserves £000	2018/19 Earmarked Reserves £000	2019/20 Earmarked Reserves £000	2020/21 Earmarked Reserves £000
Estimated Opening Balance	1,278	11,500	11,440	9,064
Estimated use during the year	0	(60)	(2,376)	(2,426)
Estimated Closing Balance	1,278	11,440	9,064	6,638

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

14.5 The budget includes the use of the debt repayment reserve, which has been topped up from one-off/windfall business rates, new homes bonus and the revenue under-spend from 2016/17. This is being drawn down (£230k per annum) over a period of 8 years until 2025/26, at which point a large tranche of external debt will mature and deliver savings to the revenue budget. This debt will not need to be replaced as the Council has adopted a strategy of reducing the underlying need to borrow from, for example, capital receipts which also generates savings to the revenue budget by reducing the statutory minimum revenue provision charge to the budget.

15. Financial Considerations

This section has been approved by the following member of the Finance Team: Lisa Turner.

15.1 This report deals solely with financial matters.

16. Legal Considerations

This section has been approved by the following member of the Legal Team: Angela Wakefield.

16.1 There are no direct significant legal issues arising from this report. This report complies with a number of statutory requirements.

17. Equality and Health

17.1 The Medium Term Financial Strategy is linked to Service Plans, which have been subject to Equalities Impact Assessments.

18. Human Rights

18.1 There are no Human Rights issues arising from this Report.

19. Conclusions

19.1 Subject to the assumptions made and the risks identified the Chief Financial Officer's view is that the budget includes estimates, which can only be based on circumstances and events which are reasonably foreseeable at the time of preparing the budget. The budget has been prepared following extensive discussion between departments and leading Members. Subject to risks set out in this report, the Chief Finance Officer is of the view that the budget provides a robust basis for managing the Council's finances in the years 2018/19 to 2020/21.

19.2 The budget takes appropriate account of external demands, service pressures and affordability. It leaves the Council with an appropriate level of reserves.

19.3 The MTFS identifies ongoing savings requirements and uncertainties, specifically for 2019/20 and beyond. In line with our approved efficiency plan, members and officers will need to continue to identify more effective ways of service delivery to ensure the Council's financial sustainability in the medium to long term.

19.4 Both the Asset Management and Capital Strategy and the Treasury Management Strategy inform the MTFS and should enable the Council to move forward and meet its objectives.

19.5 Members note the extent of the financial challenge ahead, and that the budget is balanced with the utilisation of £0.1m from reserves in 2018/19 rising to £1.4m in 2021/22, after taking into account a freeze in the level of Council Tax set by ESBC.

20. Recommendation to Cabinet

20.1 To recommend to Council that the Medium Term Financial Strategy 2018/19 to 2021/22, which includes the revenue budget, capital programme, and the asset management and capital strategy be approved; and that the level and appropriateness of reserves be noted.

21. Background papers

21.1 Provisional Local Government Finance Settlement 2018/19 – December 2017

21.2 East Staffordshire Borough Council – Efficiency Plan 2016/17 to 2019/20

22. Appendices

22.1 Appendix A: Detailed Budget Summary 2018/19 – 2019/20

Appendix B: Reserves Forecast

Appendix C: Asset Management and Capital Strategy 2018-19

APPENDIX A

MEDIUM TERM FINANCIAL STRATEGY SUMMARY 2018/19 – 2019/20

Budget Summary	2018/19 Budget £'000	2019/20 Budget £'000
Service Budgets		
Arts, Brewhouse and Functions	393	383
Community and Open Spaces	1,287	1,331
Corporate Management Team	464	522
Corporate and Commercial	843	864
Cultural Services – Marketing	130	131
Enterprise	129	126
Environment	3,122	3,134
Environmental Health	495	502
Financial Services and Capital Financing	989	948
Housing	252	255
Human Resources, Payments & Pensions	1,709	1,843
IT and Printing	501	504
Legal, Assets and Licensing	(278)	(276)
Leisure - Indoor Facilities	891	843
Leisure - Outdoor Facilities	147	145
Markets	(14)	(14)
Planning	187	193
Revenue, Benefits and Customer Contacts	269	370
Corporate/Contingencies Budgets		
New Homes Bonus Grant @65%	(1,072)	(1,046)
Parish Council Support Grant	65	60
Apprentice Levy	28	28
Pay Award Provision	130	278
Total Revenue Budget	**10,667**	**11,124**
Central Government Grant (RSG)	(383)	-
Government – Tariff Adjustment/Negative RSG	-	97
Retained Business Rates	(3,340)	(3,312)
Share of Council Tax Surplus	(220)	(85)
Support from the New Homes Bonus Reserve	(132)	(953)
Net Revenue Budget	**6,592**	**6,871**
Special Expenses	(446)	(446)
Amount to be raised by Council Tax	**6,146**	**6,425**
Council Tax Increase (Band D)	**0%**	**£5**