EAST STAFFORDSHIRE BOROUGH COUNCIL

REPORT COVER SHEET

Title of Report:	Medium Term Financial Strategy 2017/18 – 2019/20
Meeting of:	Cabinet
Date:	13/2/2017
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: 27th February 2017

TITLE:	Medium Term Financial Strategy 2017/18 – 2019/20
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 remainder of this administrative cycle, 2017/18 to 2019/20. 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 is a further report elsewhere on this agenda relating to the Council's Treasury Management Strategy for 2017/18, 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 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 2017/18 to 2019/20 was made in December 2016. This largely confirmed the figures published in the multi–year settlement deal the previous year – extending the period of unprecedented funding reductions to local authorities to the end of this Parliament.

2.2 For East Staffordshire the settlement has resulted in a cash reduction of 30% or approximately £1.3m over the three 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 2017/18** – the eighth year in a row where the authority has either not increased or reduced its element of the charge.

2.4 The settlement in 2016/17 established a central government policy change in relation to increases in council tax. Those authorities with a greater ability to raise additional income from Council tax now face more substantial reductions in central funding. The government's core spending power calculations for individual authorities also assume that council tax will rise slightly below the level that would trigger a referendum – £5 or 3% for this authority. **This was reflected in council tax statistics, which indicate that nationally approximately 80% of District Councils increased council tax in 2016/17 by on average 2.6%.**

2.5 Alongside the settlement the Government also published its proposals in relation to the revised New Homes Bonus Scheme, this follows the consultation issued in December 2015. The outcome means that payments are to be scaled back from six to four years by 2018/19 (five in 2017/18), and there will be a new deadweight or baseline of 0.4% below which payments for new homes brought onto the list will not be made. These proposals result in a loss of income to the authority of £0.5m in 2017/18 rising to £1.2m in 2018/19. Nevertheless, the number of properties brought onto our list during 2016 has exceeded previous performance, which is partially due to the empty homes review which has been undertaken during the year. As a direct result, despite the Government's scaling back, our 2017/18 allocation is £2.1m compared to £2.2m in 2016/17. Due to the levels of uncertainty surrounding this funding, 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.

2.6 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.

2.7 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 reductions in the levels of service income, with further details set out in paragraph 9.3.

2.8 The authority has a pro-active and rolling approach to financial planning and has identified a number of savings proposals for 2017/18, which total in excess of £0.7m. This includes the removal of approximately 4.3 FTE posts from the establishment. Details of the most significant savings are detailed at paragraph 9.7.

2.9 Taken into consideration the scale of funding reductions seen since 2010/11, it is a very positive position for the authority to be able to set out a budget which is balanced for 2017/18 to 2019/20. This demonstrates that the authority is financially sustainable for the remainder of this administration. Nevertheless, this incorporates the temporary use of some one-off funding held within the New Homes Bonus reserve. As a result there will be an ongoing requirement to find savings in the medium term 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.

2.10 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 new Neighbourhood Working Scheme, Disabled Facility Grants, Public Art restoration and also some additional improvements at the Brewhouse Arts Centre. Funding remains available to support further projects, such as town centre regeneration initiatives. 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).

2.11 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.

2.12 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 2018/19 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, whilst still aiming to keep council tax increases to a minimum.

2.13 In approving the MTFS the level of Council tax required will be £167.30 (Borough Council at Band D), a freeze on the 2016/17 level. A separate report will be on Council agenda for formal approval of the overall Council tax for 2017/18.

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 3 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 RPI adjustments to the business rates baseline.

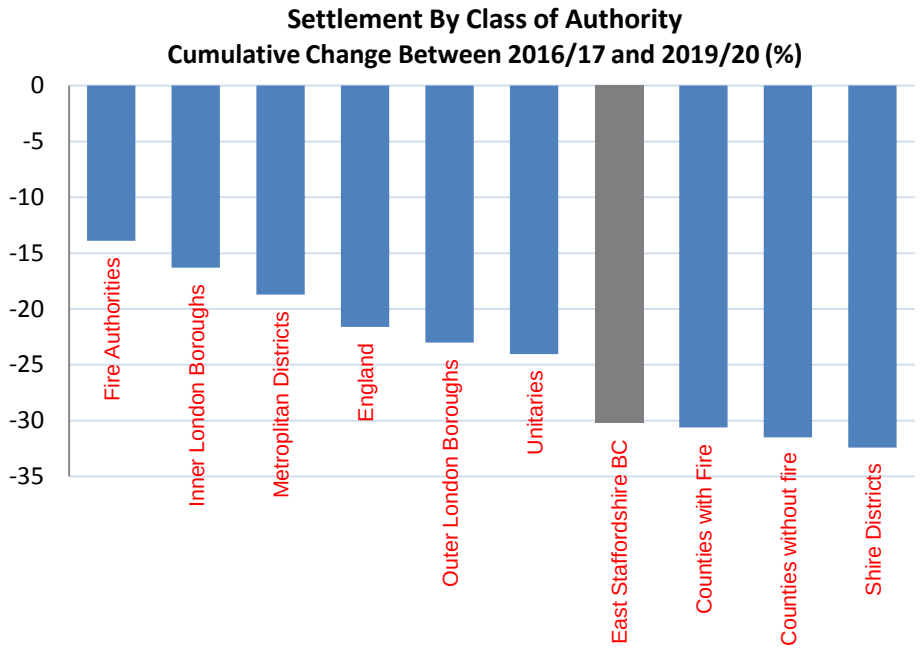
5.2 The Council published its efficiency plan in September 2016 and subsequently accepted the multi-year settlement offer. Subject to the annual business rates RPI adjustment, these figures were re-confirmed as part of the provisional local government finance settlement for 2017/18 in December 2016.

5.3 The table below sets out the settlement, as announced. Overall, this results in a £1.3m or 30% reduction in funding over the three year 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	%
2016/17	1.508	2.928	**4.436**		
2017/18	0.813	2.987	**3.800**	**0.636**	**14.3%**
2018/19	0.383	3.083	**3.466**	**0.334**	**8.8%**
2019/20	-	3.096*	**3.096**	**0.370**	**10.7%**
			Cumulative Reduction	**1.340**	**30.2%**

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

5.4 The graph below compares the funding reductions during the period 2016/17 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.



5.5 It should be noted that in addition to the settlement, the government previously agreed transitional funding of £150m at a national level to support those authorities facing the most significant funding reductions. The share of this funding allocated to the authority is £15k for 2017/18, which has been incorporated into the budgets.

5.6 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	**2.113**	6.107	74%
2019/20	**1.743**	6.477	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.

5.7 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)	**1.743**
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)	**3.096**

5.8 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 is a significant policy change from last parliament, 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.

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

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 issued a consultation paper in December 2015 which proposed a number of changes to "sharpen" the scheme. These are ultimately aimed at reducing the cost of the scheme and therefore the level of funding to authorities. The proposals centred around scaling back the number of years that payments would be received from six to four, reducing the level of bonus for homes delivered after appeal and failure to have an adopted local plan in place, as well as the introduction of a baseline at 0.25%.

6.3 The outcome of the consultation was published alongside the draft settlement in December 2016, a full year after the original consultation. The key points are as follows:

- Nationally, New Homes Bonus funding of £241m is to be allocated towards a new Adult Social Care Grant in 2017/18;

- A new baseline of 0.4% is to be introduced, only growth above this will receive New Homes Bonus – for East Staffs this equates to around 172 properties;
- Payments move from the current six to five years in 2017/18 and four in 2018/19;
- The Government will retain the option to adjust the baseline in future years to reflect any unexpected housing growth; and
- The Government will not withhold payments for those without a local plan in 2017/18, but will re-consider this for 2018/19.

In comparison with the existing scheme, the introduction of these changes will result in the loss of New Homes Bonus Payments for the authority of £0.5m in 2017/18 rising to at least £1.2m in 2018/19.

6.4 Nevertheless, our new homes bonus allocation for 2017/18 is favourable with an increase in properties on the list of 690, well above the average seen in the previous three years (324). This is in part due to the empty homes review undertaken during the course of the year, which has brought 144 properties back onto the list. **The net result is a cumulative payment of £2.1m in 2017/18, compared with £2.2m in 2016/17. Considering the extent of scaling back undertaken by the Government, this is a very positive outcome**.

6.5 Due to future uncertainty in relation to the scheme, the proposals within the Medium Term Financial Strategy 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 (£0.813m) and the baseline funding (£2.987m) 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 £2.764m. 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%.

7.3 During the course of 2015/16 the Government announced that it intends to phase out the main revenue support grant to local authorities and move to a system based on 100% retention of business rates during the course of this Parliament. There will still need to be a system to re-allocate funding within the sector and the government has indicated that there will also be further responsibilities devolved in order to make this feasible. There has been a consultation and a number of working groups taking place during the course of 2016/17 in order to develop the revised scheme and this is expected to continue into 2017/18. At this stage it is not clear whether the new scheme will come into effect in 2019/20 or 2020/21. Members will be updated as the proposals evolve.

7.4 The table below provides a breakdown of the forecast business rates income built into the MTFS for 2017/18 and 2018/19.

Table 4 : Retained Business Rates	**2017/18 £000**	**2018/19 £000**
Forecast Business Rates	52,177	53,993
Central Government Share (50%)	(26,088)	(26,996)
Major Preceptors Share (10%)	(5,218)	(5,399)
ESBC Share (40%)	20,871	21,598
Section 31 Grants	710	733
Less Tariff to Birmingham	(17,871)	(18,446)
Appeals Spreading Adjustment	(200)	-
Pre-levy retained business rates	3,510	3,885
Section 31 Grant (RPI cap)	44	44
Levy to GBSLEP	(261)	(401)
Volatility Provision	(209)	(216)
Post Levy Retained Business Rates	**3,084**	**3,312**

Baseline	**2,987**	**3,084**
Safety Net	**2,764**	**2,853**

7.5 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.

Business Rates Pooling

7.6 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).

7.7 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.

7.8 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.

8. Revenue Budget

8.1 The revenue budget for the financial years 2017/18 to 2019/20 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	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000
Total Revenue Budget	**10,582**	**11,552**	**11,941**
Central Government Grant (RSG)	(813)	(383)	-
Government - Transitional Grant	(15)	-	-
Retained Business Rates	(3,084)	(3,312)	(3,307)
Council Tax Surplus	(210)	(85)	(85)
Support from the New Homes Bonus Reserve	-	(1,251)	(1,784)
Net Revenue Budget	**6,460**	**6,521**	**6,765**
Special Expenses	(446)	(446)	(446)
Amount to be raised by Council Tax*	**6,014**	**6,075**	**6,319**
Council Tax Increase (Band D)	0%	0%	£5

**includes a 1% increase in the tax base*

8.2 The budget is balanced for years' two and three (2018/19 to 2019/20) after taking into account the windfall element of new homes bonus allocations which will be held within reserves (£4.3m) following the receipt of the 2017/18 allocation. This demonstrates that the Council is financially sustainable for the remainder of this Parliament, however making use of one-off funding in this manner is only a temporary measure and therefore further ongoing savings will still need to be delivered in the medium term – as demonstrated in the above table.

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 for the remainder of this Parliament. The key themes are as follows:

- 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;
- Seek to further utilise internal shared services; and
- A challenging and commissioning approach to procurement.

9. Changes to Budgets 2017/18 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.

Revenue Growth

9.3 In the current climate revenue budget growth has been severely restricted and in reality limited to unavoidable areas, such as shortfalls in income levels or changes in legislation. The most significant items of revenue budget growth are set out in the table below:-

Table 6: Revenue Growth – 2017/18

Portfolio	Description	£'000
Enterprise and Environment	Recycling income – to reflect a the fall in market prices	96
Planning and Neighbourhoods	Planning Income levels – reduction following adoption of the Local Plan	171
	Land Charge Income Levels – lower than previously anticipated	33
Regulatory Services	Car Parking – business rates revaluation	51
Cultural Services	Markets – re-alignment of the income target	111
	Facilities – statutory inspections	40

9.4 In addition to the above items, the base budget made growth provision to reflect increased costs in relation to the following areas:

- Actuarial review of the pension fund – increased contribution levels (£140k p.a.);
- The introduction of the national apprenticeship levy (£27k);
- The estimated impact of the living wage (£10k rising to £60k by 2019/20).

9.5 The budget for 2018/19 onwards includes a corporate provision of £0.15m, which is linked to housing growth pressures arising within the Environment Division. A review is currently underway which aims to mitigate, as far as possible, these pressures before any additional funding is allocated directly to the service.

Revenue Savings

9.6 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.

9.7 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 over £10k) and increased levels of income which have affected 2017/18 and future year's revenue budgets. In total approximately 4.3 full-time equivalent posts have been removed from the draft estimates for 2017/18 compared to 2016/17.

Table 7: Savings 2017/18 onwards	**£'000**
Items £50k to £99k	
New Homes Bonus Allocation (additional properties on the list)	93
Debt Repayment	78
ICT - Procurement	77
Items £20k to £49k	
CCTV Contract – Procurement Savings	44
ICT – Vacant Post	39
Corporate and Commercial – Vacant Post	37
Pension Contributions – Lower than originally anticipated	35
Shopmobility Review (part year effect)	26
Housing Professional Reserve	25
Planning - Professional Support	20
Items £11k to £19k	
Facilities Management - Staffing Restructure	18
Grounds Maintenance - Contribution from s106 funding	18
Car Parking Income – re-alignment	18
Corporate and Commercial – Staff Sabbatical	17
Mayoral Secretarial Support – vacant post	17

HR - Base Budget Review Savings	17
Bartec Capital Repayments	17
Waste Contract (News and Mags) terminated	15
Enterprise Staffing Re-structure	14
HR - Graduate post – vacant	12
Branston Golf Club Lease	12
Total	**649**

9.8 In addition to the above savings, the base budget for 2017/18 included £0.28m in relation the removal of food waste from brown bins following a review of the Organic Waste Collection Service.

10. Assumptions

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

- Potential pay awards of 1% from 2017/18.
- Estimated superannuation increases following triennial revaluation,
- Staffing vacancy factor of 2% included.
- Formula funding as per settlement notification 2017/18 – 2019/20
- A 98% council tax collection rate
- Increased tax base of 1% per annum from 2018/19
- Business Rates Revaluation – The 2017 draft RV listing
- Interest rates on investments 0.3% (2017/18), 0.5% (2018/19), and 0.6% (2019/20).

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 three years provides a degree of certainty, there remains a risk that these figures could change. For 2019/20 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 100% locally retained business rates scheme.

- **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 into the next parliament, the future of the scheme is uncertain. 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 £0.3m for 2017/18 and £0.5m thereafter. This has been considered as part of the reserves forecast, with £0.2m per annum set aside to mitigate the risks. The business rates revaluation comes into effect from April 2017 and 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 the Government intends to introduce a new appeals scheme – Check, Challenge & Appeal.

  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 2017/18 estimate

Income Stream/Source	£'000
Business Rates (Safety net)	323
Government Finance Settlement	190
New Homes Bonus	104

- **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 2017/18 to mitigate against the risk of a shortfall in service income levels.

- **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 2019/20, 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.

- **Brexit / EU Referendum.** The outcome of the EU referendum has already had an impact on the economy, with 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.

- **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.

- **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.

- **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 2017/18 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 £4m available to fund capital proposals over the course of this administration.

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

- The new **Neighbourhood Working Scheme** (£0.1m per annum) for three years to 2019/20;

- Supporting communities through **Disabled Facilities Grants,** with this being funded via the Better Care Fund (assumed award of £0.7m);

- **Brewhouse improvements,** an additional sum of £17k to continue the improvements energy efficient measures, which will generate revenue savings;

- A sum of £85k is to be set aside for a programme of restoration to existing **Public Art** works around the Borough.

13.3 There are a number of proposals currently being considered and once these have been fully developed and supported by business cases these will be brought forward to Cabinet for approval, these include:

- Burton Town Centre Regeneration;
- Self Build Dwellings;
- Office Accommodation Review; and the
- Uttoxeter Sports Hub.

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.

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 – a new property will impact on business rates, insurance, utility costs and staffing, 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 main points to note are:-

- The revenue cost of financing capital expenditure (borrowing costs net of investment income) is expected to remain at around 12-14% over the medium term.

- Each new capital scheme approved has an effect on the revenue budget. The impact on Council Tax of the new schemes that are to be approved for 2017/18 to 2019/2020 is shown in the Treasury Strategy and in practice is very small.

- 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.

14. Reserves

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.

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 for 2017/18

	General Reserves £000	Earmarked Reserves £000
Estimated Opening Balance	1,278	9,986
Estimated Use during the year	0	(1,243)
Estimated Closing Balance	1,278	8,743

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 not used to support ongoing revenue expenditure.

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 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 2017/18 to 2019/20.

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 2018/19 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 that the Council's stated aim of keeping Council Tax increases at low levels remains feasible.

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 should note that the 2017/18 budget is in balance taking into account a freeze in Council Tax level set by ESBC.

20. Recommendation(s)

20.1 To approve the Medium Term Financial Strategy 2017/18 to 2019/20, which includes the revenue budget, capital programme, and the asset management and capital strategy; and to note the level and appropriateness of reserves.

21. Background papers

21.1 Provisional Local Government Finance Settlement 2017/18 – December 2016

21.2 Outcome of Consultation on New Homes Bonus Scheme – December 2016

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

22. Appendices

22.1 Appendix A: Medium Term Financial Strategy – Summary 2017/18 – 2019/20

Appendix B: Reserves Forecast

Appendix C: Asset Management and Capital Strategy 2017-18

APPENDIX A

MEDIUM TERM FINANCIAL STRATEGY
SUMMARY 2017/18 - 2019/20

Budget Summary	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000
Service Budgets			
Arts, Brewhouse and Functions	341	353	364
Community and Open Spaces	2,221	2,252	2,281
Corporate Management Team	497	506	514
Corporate and Commercial	825	842	856
Cultural Services – Marketing	126	128	130
Enforcement	(531)	(462)	(401)
Enterprise	132	133	131
Environment	2,850	2,857	2,863
Environmental Health	497	503	509
Financial Services and Capital Financing	1,386	1,408	1,417
Housing	238	241	244
Human Resources, Payments & Pensions	1,545	1,695	1,827
IT and Printing	573	575	577
Land Charges	(3)	(2)	-
Legal Services	(305)	(301)	(296)
Leisure - Indoor Facilities	872	848	822
Leisure - Outdoor Facilities	150	148	145
Markets	(13)	(13)	(14)
Planning	213	222	230
Revenue, Benefits and Customer Contacts	205	243	293
Corporate/Contingencies Budgets			
New Homes Bonus Grant @65%	(1,354)	(903)	(854)
Parish Council Support Grant	72	65	60
Contributions to/from(-) Earmarked Reserves	4	-	-
Environment Pressures (Para. 9.5)	-	150	150
Other Corporate Items	42	64	93
Total Revenue Budget	**10,582**	**11,552**	**11,941**
Central Government Grant (RSG)	(813)	(383)	-
Government - Transitional Grant	(15)	-	-
Retained Business Rates	(3,084)	(3,312)	(3,307)
Council Tax Surplus	(210)	(85)	(85)
Support from the New Homes Bonus Reserve	-	(1,251)	(1,784)
Net Revenue Budget	**6,460**	**6,521**	**6,765**
Special Expenses	(446)	(446)	(446)
Amount to be raised by Council Tax	**6,014**	**6,075**	**6,319**
Council Tax Increase (Band D)	**0%**	**0%**	**£5**