

Medium Term Financial Strategy

Introduction

1. For a number of years as part of the Council's sound financial planning arrangements a four-year financial strategy has been prepared. This document allows a considered view to be taken of spending and resources. Without a medium term financial strategy finances would be managed on an annual basis leading to sudden expansions and contractions in services. Clearly such volatility would lead to waste and be confusing for stakeholders.
2. Managing this Council's finances has been made easier by isolating one off fluctuations (District Development Fund or DDF) from the ongoing core services (Continuing Service Budgets or CSB). This distinction highlights the differing effects in the medium term of approving different types of initiative.
3. A key part of the strategy is future rises in Council Tax and the Council has a stated ambition to remain a low tax authority in the long term. To achieve this over the long term it is important to avoid the gimmick of one-off reductions. For 2014/15 it appears there will be a mixed picture across Essex, with some authorities increasing charges to just below the referendum limit and some considering token reductions.
4. At its 19 September 2013 meeting the Finance and Performance Management Cabinet Committee decided to recommend a continued freeze in the Council Tax. Following questions raised by the Finance and Performance Management Scrutiny Panel a report was presented illustrating the financial effects of a continued freeze compared to modest increases in the charge. Following consideration of that report in November by that Committee, Cabinet decided that the policy of continuing the freeze was appropriate.

Previous Medium Term Financial Strategy

5. The September meeting of the Finance and Performance Management Cabinet Committee considered the annual Financial Issues Paper and an updated medium term financial strategy. At that time Members attention was drawn to a number of areas of significant uncertainty. Key amongst those were the structural reforms to the financing of local authorities through the local retention of NNDR and the Government's programme of welfare reform. The general state of domestic and world economies remained a concern and this was reflected in poorly performing income streams. There were also questions over the New Homes Bonus, Development Opportunities and the Organisational Review.
6. Against this background of risk and uncertainty a forecast was constructed that set a target of £14.07m for CSB expenditure for 2014/15 and maintained the requirement for annual CSB savings over the forecast period. At this time deficit budgets were anticipated for each year of the forecast, although these were reducing at the end of the forecast.
7. At that time the predicted General Fund balance at 1 April 2018 of £6.98m represented 53% of the anticipated Net Budget Requirement (NBR) for 2017/18 and was therefore somewhat higher than the guideline of 25%. It was also predicted at that time that there would be £1.4m left in the DDF at 1 April 2018.

Updated Medium Term Financial Strategy

8. In the period since the Financial Issues Paper the Government has provided the draft settlement figures for the next two years. The reductions in funding were somewhat larger than had been anticipated but this has been partially off set by savings to date exceeding their target. In constructing the forecast it has been necessary to make certain assumptions, these are set out below:
 - a) CSB Growth – the net savings required for 2014/15 have been found, but budgets will be re-visited during the course of 2014/15 to seek further reductions. In common with the earlier version of the strategy, target CSB savings are included for the period 2015/16 to 2017/18. The top management restructure, the removal of the threatened top slicing of new homes bonus, and additional income from the property portfolio and parking have helped achieve the savings required for 2014/15. However, annual net savings targets of £0.7m for 2015/16 and 2016/17 are likely to prove challenging.
 - b) DDF – all of the known items for the four-year period have been included and at the end of the period a balance of £0.872m is still available. This is a worsening on the position in the current year's budget, where the MTFS adopted in February 2013 showed a closing balance at the end of the period of £1.5m.
 - c) Grant Funding – beyond 2015/16 it has been assumed that there will be a 3% reduction in grant over the remaining two years of the MTFS. These figures will be subject to change following the General Election and the next Comprehensive Spending Review.
 - d) Other Funding – no amounts have been included for any additional New Homes Bonus that may arise for years after 2014/15. No growth, or reduction, in funding has been anticipated from changes in the non-domestic rating list. An additional allowance of £250,000 has been made in the DDF in 2014/15 to supplement the allowance for losses on appeals of £2.6m as there are approximately 500 appeals still outstanding.
 - e) Council Tax Increase – Members have confirmed they wish to freeze the charge for 2014/15 and 2015/16. Increases of 2.5% have been allowed for subsequent years. These assumptions have been built into the strategy.
9. This revised medium term financial strategy has deficits throughout the period, although these are reducing and the use of reserves in 2017/18 is £591,000 lower than in 2015/16. The predicted revenue balance at the end of the period is £7.53m, which represents 59% of the NBR for 2017/18 and thus comfortably exceeds the target of 25%.
10. It is worth repeating that savings of £0.7m are still necessary in the next two years of the strategy and in approving the medium term financial strategy Members are asked to note these targets. The strategy will be monitored during the year and updated for the September 2014 meeting of the Finance and Performance Management Cabinet Committee.