

## **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 2016/17 it appears that most authorities across Essex will be increasing charges to just below the referendum limit.
4. At its 20 July 2015 meeting this Committee decided to recommend a 2.5% increase in the Council Tax. This recommendation was adopted by Cabinet on 3 September 2015.

### **Previous Medium Term Financial Strategy**

5. The July meeting of the 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 although most of the key income streams were now showing improvement. There were also questions over the New Homes Bonus, Development Opportunities and the Transformation Programme.
6. Against this background of risk and uncertainty a forecast was constructed that set a target of £13m for CSB expenditure for 2016/17 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 2020 of £8.95m represented 64% of the anticipated Net Budget Requirement (NBR) for 2019/20 and was therefore somewhat higher than the guideline of 25%. It was also predicted at that time that there would be £1m left in the DDF at 1 April 2020.

## Updated Medium Term Financial Strategy

8. In the period since the Financial Issues Paper the Government has provided the draft settlement figures for the period up to and including 2019/20. The reductions in funding were somewhat larger than had been anticipated, with Revenue Support Grant going negative by the end of the period. 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 2016/17 had been found but an increase in the target was needed to allow for the increase in National Insurance contributions. Budgets will be re-visited during the course of 2016/17 to seek further reductions. In common with the earlier version of the strategy, target CSB savings are included for the period 2017/18 to 2019/20. Additional development control income, savings from transformation and the new leisure management contract have helped achieve the savings required for 2016/17. However, on top of known predicted savings, net savings targets of £250,000 for 2017/18 and £150,000 for 2018/19 are needed.
  - 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 £0.8m is still available. This is consistent with the position in the current year's budget, where the MTFs adopted in February 2015 showed a closing balance at the end of the period of £0.9m.
  - c) Grant Funding – the amounts included are those from the draft settlement, including the negative amount of £280,000 in 2019/20.
  - d) Other Funding – the amounts included for New Homes Bonus will need to be reviewed when the changes to the scheme are known, but current assumptions are based on the consultation and are felt to be prudent. No growth in funding has been anticipated from growth in the non-domestic rating list. It has been assumed that the allowance for losses on appeals will be adequate but there are hundreds of appeals still outstanding, including one against the largest item on our rating list. It has been assumed that the revised opening date for the retail park will be achieved.
  - e) Council Tax Increase – Members have indicated that they wish to freeze the charge for the length of the strategy.
9. This revised medium term financial strategy has deficits throughout the period, although these are reducing and the use of reserves in 2019/20 is only £3,000. The predicted revenue balance at the end of the period is £7.3m, which represents 59% of the NBR for 2019/20 and thus comfortably exceeds the target of 25%.
10. It is worth repeating that savings of £0.5m are still to be identified for the last three years of the strategy and that identified savings of £1.85m in 2017/18 and 2018/19 will have to be delivered. 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 July 2016 meeting of the Finance and Performance Management Cabinet Committee.