

SUBJECT:	Medium Term Financial Strategy
REPORT OF:	Director of Resources
RESPONSIBLE OFFICER	Director of Resources
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WARD/S AFFECTED	All

1. Purpose of Report

The report sets out the current assessment of the Council's medium term financial position, and the key issues facing the Council from the perspective of the Cabinet. Overview & Scrutiny Committee is asked to undertake some work to consider the options for addressing the key issues put forward at this stage by officers, in order to provide advice to the Cabinet in December to help with its determination of the Financial Strategy.

RECOMMENDATIONS

The Committee is recommended to:

1. Set up a Task & Finish Group to consider options to address the medium term financial issues facing the Council and prepare a report for the Cabinet's December meeting.
2. The Task & Finish Group be open to all members of the Committee.

2. Executive Summary

- 2.1 The Medium Term Financial Strategy that was part of the budget agreed in February identified the potential need to reduce net expenditure by over £1m by the end of the decade as a result of the likely continuing effects of the Government's austerity programme. A recent review of the position as part of starting the 2016/17 budget cycle, indicates while it has improved to a degree it has not fundamentally changed (Appendix A).
- 2.2 In addition there are a number of issues that may require a material use of reserves, or increased expenditure commitments. Primarily these are the funding of the Capital programme, the Local Plan process, and reducing the historic deficit on the Pension Fund.
- 2.3 Therefore there is a need to consider savings that will as a minimum, start to reduce net expenditure from 2017/18 onwards. The overall objectives will be:

- to eliminate the funding gap.
- increase revenue reserves, partly to provide a funding source that could be required to deal with issues arising in Autumn 2016 in respect of the Pension Fund.
- provide increased funding available for the Capital programme from the revenue budget on an ongoing basis.

2.4 The Committee is being asked to undertake work to consider saving proposals put forward by officers to achieve the above objectives.

3. Reasons for Recommendations

The Committee is being asked to undertake some work to assist the Cabinet in achieving the medium term financial objectives it is planning to set for the Council. This work will best be undertaken by using a Task & Finish Group model which can allow for confidential discussion of options and issues without the restrictions of formal Committee meetings.

4. Content of Report

4.1 The suggest structure for the work would be to consider proposals that would fall into one or more of the following definitions.

Reduce Expenditure	<ul style="list-style-type: none"> • Reduce costs without impacting on service delivery, i.e. efficiency measures. • Transform service delivery inc. demand management, prevention, community capacity building etc • Reduce or cease discretionary spend • Reduce service standards or levels where the Council has the scope to do this.
Increase Income	<ul style="list-style-type: none"> • Raise fees & charges • Reduce or remove exemptions to charges • Increase demand for chargeable services • Increase property income/capital receipts • Identify new income streams • Increase council tax and business rates bases.

4.2 Proposals presented by the relevant officers and would be make clear timescales for implementation on order to have effect from 2016/17 onwards. The options would identify:

- Saving (showing which year they would be effective from)
- Impact on residents/users/clients
- Timescale, dependencies and any investment required

- Risks

4.3 Any options would need to take into account the joint working with Chiltern, and the impact on established joint services.

4.4 Some of the longer term proposals could be recommended for further development before final decisions are made, as it is not essential for all proposals to come into effect in 2016/17.

4.5 To undertake the work in the timescale it would be proposed that a Task & Finish sub group of O&S Cmm is established to meet two or three times by the mid November, in order to compile a final report available for the Cabinet meeting in December. At those meeting Heads of Service would present options under the various savings headings for consideration.

5. Consultation

Not applicable

6. Options

Not relevant in this context.

7. Corporate Implications

Financial

7.1 The proposed work will be part of setting the 2016/17 Budget, and revision of the Medium Term Financial Strategy.

Legal

7.2 It is important to recognise that that Overview & Scrutiny Committee is not a decision making body in the budgetary framework, that role sits with the Cabinet. It can however fulfil an important role in helping shape thinking around budget strategy and providing advice to the Cabinet.

8. Links to Council Policy Objectives

8.1 This work is part of the Council achieving its objective of delivering value for money

9. Next Steps

9.1 If the Committee agrees the recommendations then the next steps will be:

- Arrange two or three meetings of a Task & Finish Group between 19 October and 12th November.
- Overview & Scrutiny Committee report included on the Cabinet agenda 17th December as part of the report on the Budget.

Background	None
Papers:	

APPENDIX A

MEDIUM TERM FINANCIAL FORECAST

	2016/17	2017/18	2018/19	2019/20
	£k	£k	£k	£k
Base Net Service Budget	8,104	8,374	8,644	8,914
Savings - Other	-140	-140	-140	-140
Savings - Shared District Services	-80	-160	-160	-160
Cost Changes	270	270	270	270
Net Service Expenditure	8,154	8,344	8,614	8,884
	0.6%	2.3%	3.2%	3.1%
Funding				
Investment Income	-250	-200	-200	-200
Use of Reserves - General	0	0	0	0
Net Expenditure (Budget Requirement)	7,904	8,144	8,414	8,684
	5.7%	3.0%	3.3%	3.2%
Revenue Support Grant	-671	-471	-271	0
Retained Business Rates	-1,428	-1,971	-2,180	-2,245
New Homes Grant	-1,330	-984	-795	-636
Council Tax	-4,661	-4,790	-4,920	-5,050
Total Income	-8,090	-8,216	-8,166	-7,931
	8.2%	1.6%	-0.6%	-2.9%
Funding Surplus (-)/Gap (+)	-186	-72	248	753
Council Tax Base	31,960	32,210	32,460	32,660
Band D Council Tax	£145.85	£148.75	£151.71	£154.73
Percentage Increase	1.99%	1.99%	1.99%	1.99%
Increase £/week	£0.05	£0.06	£0.06	£0.06

Notes

1. Cost increases are estimated only on a number of specific headings where their impact is material enough to take into account, and the largest single heading is employee costs. The majority of budgets do not have any cost change allowance. Overall the effect of cost increases is currently around £270k pa, based on general inflation remaining around 2%-3% pa, and public sector employee pay being less than that.
2. Savings are estimated only on items already agreed by members and for joint working only to the end of the phase of service reviews which will conclude in 2016. No assumptions are made regarding further joint working projects or savings.

3. Investment income in the past has been a substantial income stream for the Council but that has declined in recent years as a result of lower interest rates and cash balances. Strategically the Council's approach has been to reduce the dependency, and therefore the risk, on investment income to support the Council tax, and the income budget is planned to reduce in future years.
4. The Government has indicated that as expected the reduction in funding for local authorities will continue to significantly decline through to 2019/20. In the Council's forecasts the RSG element of its funding is anticipated to reduce by around £200k pa so that by 2019/20 it no longer receives any funding from this source. These figures will be reviewed in the light of the government's autumn Statement at the end of November when public sector funding allocations will be announced.
5. Another major Government funding source is New Homes Grant, £1.3m in 2015/16. There are financial risks going forward arising from.
 - The rate of new homes growth slowing or ceasing
 - The Government ending or changing the scheme as part of its savings measures

In the context of the projection shown the worst case scenario is used.

6. The business rates system is complicated to predict in detail what its effects will be due to the way in which it works and how it is reflected in the accounts. In the initial two years of the system the implications were clouded by the need to make financial provisions for the effect of property revaluations. The point is now reached where it would not be expected after 2015/16 to make substantial additional provisions therefore there is greater clarity of the potential impact going forward, which is expected to produce above inflation growth. The Government has confirmed its commitment to the localisation of business rates, and the current arrangements will remain in place until at least 2020.