

## **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 2015/16 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 28 July 2014 meeting the Finance and Performance Management Cabinet Committee decided to recommend a continued freeze in the Council Tax. This recommendation was adopted by cabinet on 8 September 2014.

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

5. The July meeting of this 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 Organisational Review.
6. Against this background of risk and uncertainty a forecast was constructed that set a target of £13.15m for CSB expenditure for 2015/16 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 2019 of £8.29m represented 65% of the anticipated Net Budget Requirement (NBR) for 2018/19 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 2019.

## Updated Medium Term Financial Strategy

8. In the period since the Financial Issues Paper the Government has provided the draft settlement figures for next year and this Committee increased the CSB target to £13.33m. The reductions in funding were somewhat smaller than had been anticipated, which was helpful given the increasing cost pressures. 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 2015/16 have been found, but budgets will be re-visited during the course of 2015/16 to seek further reductions. In common with the earlier version of the strategy, target CSB savings are included for the period 2016/17 to 2018/19. The organisational restructure, savings on waste management, additional rental income and additional development control income have helped achieve the savings required for 2015/16. However, on top of known predicted savings, net savings targets of £250,000 for 2016/17 and £400,000 for 2017/18 may 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 £0.9m is still available. This is consistent with the position in the current year's budget, where the MTFS adopted in February 2014 showed a closing balance at the end of the period of under £1m.
  - c) Grant Funding – beyond 2015/16 it has been assumed that there will be a 10% reduction in grant in each of the following years. These figures will be subject to change as a Comprehensive Spending Review will have to be conducted during 2015/16.
  - d) Other Funding – no amounts have been included for any additional New Homes Bonus that may arise for subsequent years. 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.
  - e) Council Tax Increase – Members have confirmed they wish to freeze the charge for 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 from 2015/16 to 2018/19, although these are reducing and the use of reserves in 2018/19 is £168,000 lower than in 2016/17. The predicted revenue balance at the end of the period is £9m, which represents 72% of the NBR for 2018/19 and thus comfortably exceeds the target of 25%.
10. It is worth repeating that savings of £0.9m are still to be identified for the last three years of the strategy and that identified savings of £0.4m in 2016/17 and 2017/18 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 2015 meeting of the Finance and Performance Management Cabinet Committee.