

# **Cherwell District Council**

## **Executive**

**7 July 2014**

### **Medium Term Financial Strategy**

#### **Report of Director of Resources**

This report is public

#### **Purpose of report**

This report sets out the latest Medium Term Financial Strategy (MTFS) for the council for the 5 year period from 2015/16. It sets the scene and is based on current assumptions which will inform the budget setting process for 2015/16 and the longer term decisions of the council.

#### **1.0 Recommendations**

The meeting is recommended:

- 1.1 To note the contents of the report and the current MTFS position for the council.

#### **2.0 Introduction**

- 2.1 This report sets out the current MTFS for the council. It covers the 5 year period from April 2015 and is aligned to the council's 5 year business plan. It captures the current financial horizons based on information presently known and will be a fluid document during the process of budget setting and will be updated as a result of any government announcements or other developments.
- 2.2 The MTFS provides the medium term financial forecast within which both short and long term budgetary decisions will be made. The present projections take into account the 2014/15 budget and the most recent Local Government Finance Settlement which was announced in January 2014. The assumptions which underpin the current forecast and which are set out in this report will be kept under review during the budgetary process and regular updates will be brought to the Budget Planning Committee. The Budget Planning Committee has had this current position presented to it at its meeting of 24 June 2014.
- 2.3 The MTFS is being considered within the current national financial constraints for the local government sector. It crosses over the period in which a general election will be held (May 2015) and therefore needs to be reviewed in light of any changes in policy or government. However, current indications from all main parties are that

the fiscal tightening within the public sector is likely to continue well into the life of the next Parliament.

- 2.4 In light of this context, it is important for the council to take a medium term view of the likely financial environment and plan accordingly in order to prepare for the future climate.

### 3.0 Report Details

- 3.1 The MTFS sets out the current financial position for the authority. The headline position is set out at **Table 1** below:

**Table 1 – MTFS Forecasts**

	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000
Forecast deficit	1,617	3,413	4,794	5,068	5,507

NB The position is cumulative and assumes no actions are taken to address each in year deficit. A more detailed version of the forecast is attached at Appendix 1.

- 3.2 The key assumptions are set out in the following sections

#### **Expenditure**

- 3.3 A range of inflationary assumptions have been built in for the period of the MTFS. These include an allowance for contract inflation at 2.7% per annum, salary inflation at 2% and also an allowance for salary increments. There has also been provision made for the funding of the pension deficit arising from the 2014 actuarial valuation.
- 3.4 Budgets will be monitored throughout 2014/15 so that any on-going pressures identified during this year will be taken into account in the budget setting process.

#### **Income**

- 3.5 The current MTFS continues to assume the decreasing level of Revenue Support Grant (RSG) for the council. It anticipates that the council will receive no RSG income from 2017/18 onwards. This represents a loss of £3.864 million based on current levels. The reason for this is the expected decline in this as a funding source which is in line with recent trends.
- 3.6 The model assumes that the current policies in relation to New Homes Bonus (NHB) and non domestic business rates are continued. Half of New Homes Bonus is currently used to support the base budget and this is to continue with housing growth in line with previous trends. With regard to non domestic rates, again existing assumptions have been continued with anticipated growth built into the budget. There is an expectation of additional income from the pooling arrangement with West Oxfordshire and Oxfordshire County Council (£0.3 million per annum) but owing to the volatility of this income stream nothing has been built into the base budget at this stage, this position will be reviewed as part of the detailed budget

setting process for 2015-16. Any additional growth will benefit the council and can be determined as part of the budgetary process.

- 3.7 The MTRP assumes that there will be a 0% increase in council tax levels. The current freeze grant relating to the 2014/15 council tax has been included but no assumption has been made as to any future compensation grants as this has not been clarified by the government. It is assumed that the council tax base will increase by 1% per annum over the period of the MTRP.

## Overall

- 3.8 **Table 2** below sets out in tabular form the key assumptions described above:

**Table 2 – Summary of Key Medium Term Assumptions**

Category	Assumption
Contract Inflation	2.7% per annum
Pay Inflation	2.0% per annum
Pension costs	Per actuarial valuation
Revenue Support Grant	Reduced by: 2015/16 – 32% 2016/17 – 63% 2017/18 – 100% 2018/19 – 0% 2019/20 – 0%
Business Rates Income (baseline)	Increase by 2.7% per annum (nationally set)
Formula Grant (RSG and Business Rates Combined)	Reduced by: 2015/16 16% 2016/17 25% 2017/18 19%  Increase by: 2018/19 2.7% 2019/20 2.7%
Council Tax Increase	0% per annum
Increase in Council Tax Base	1% per annum
Retained Business Rates	£400,000 per annum
New Homes Bonus	Use of 50% to support base budget

This summarises the current assumptions underpinning the MTRP. As the budget is developed these assumptions will be reviewed as a response to changing situation.

## Capital

- 3.8 The Council's forecast capital position is summarised at Appendix 2. This shows a gradual use of capital receipts but at this point has assumed the financing of Graven Hill will be funded by borrowing and not by the use of capital receipts. It also only shows the effect of the capital programme for 2014/15 and any on-going impact of that years programme. It does not include any new capital commitments for the 2015/16 programmes onwards.

## **Reserves**

- 3.9 Appendix 2 also shows the council's current reserves position. This assumes there is no action taken to address the deficit as set out in Appendix 1. These show the council's reserves will gradually decrease over the period and the general fund balance will be fully utilised if no corrective action is taken.

## **Next Steps**

- 3.10 The MTFs will form part of the budget process. It has been considered by the Budget Planning Committee at its meeting of 24 June 2014 and will be updated for members of that committee as the process continues. The next steps will be to consider the budget strategy required to address the forecast deficit.

## **4.0 Conclusion and Reasons for Recommendations**

- 4.1 The above represents the start of the budget process and consideration of the future financial environment and the decisions which will need to be taken by the council. At present, the Executive is asked to note the current position but this will be subject to further reports as the budget strategy and preparation of the budget continues.
- 4.2 In order to address the scale of the deficit set out in this report it is likely that there will need to be a fundamental change to the Council's budget strategy and this work will and change in strategy will feed into the detailed budget process for 2015-16.

## **5.0 Consultation**

Cllr Ken Atack – Lead member  
for Financial Management

Cllr Atack is content with the report and  
supportive of the recommendations contained  
within it.

## **6.0 Alternative Options and Reasons for Rejection**

- 6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Not to consider the current position. This is not recommended as it is important that medium term financial decisions are considered at the earliest opportunity to ensure the council's finances are resilient and robust.

## **7.0 Implications**

### **Financial and Resource Implications**

- 7.1 There are no direct financial implications arising from this report. It will inform the ongoing budget process and the decisions which will arise from that.

Comments checked by: Nicola Jackson, Corporate Finance Manager  
01295 221731 [nicola.jackson@cherwellandsouthnorthants.gov.uk](mailto:nicola.jackson@cherwellandsouthnorthants.gov.uk)

### **Legal Implications**

- 7.2 There are no direct legal implications arising from this report at this stage as the MTFs is merely for noting. Going forward the Council will be obliged to set balanced budgets each year.

Comments checked by: Kevin Lane, Head of Law and Governance  
0300 0030107 [kevin.lane@cherwellsouthnorthants.gov.uk](mailto:kevin.lane@cherwellsouthnorthants.gov.uk)

### **Risk management**

- 7.3 The report is for noting and as such no new risks arise from this. However, considering the budget will contain a degree of risk which will need to be considered throughout the process.

Comments checked by: Martin Henry, Director of Resources,  
[martin.henry@cherwellandsouthnorthants.gov.uk](mailto:martin.henry@cherwellandsouthnorthants.gov.uk)

### **Equality and Diversity**

- 7.4 The budget will be subject to an Equality Impact Assessment before it is agreed.

Comments checked by: Martin Henry, Director of Resources,  
[martin.henry@cherwellandsouthnorthants.gov.uk](mailto:martin.henry@cherwellandsouthnorthants.gov.uk)

## **8.0 Decision Information**

### **Key Decision**

**Financial Threshold Met: Yes**

**Community Impact Threshold Met: Yes**

### **Wards Affected**

All

### **Links to Corporate Plan and Policy Framework**

All

### **Lead Councillor**

Councillor Ken Atack – Lead Member for Financial Management

## Document Information

Appendix No	Title
1	Medium Term Revenue Plan
2	Capital and Revenue Reserves Forecast – to follow
Background Papers	
None	
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